Governed Interdependence, Communities of Practice and the Production of Capital Market Knowledge in Southeast Asia

Abstract

This article revisits the notion of governed interdependence to examine the knowledge practices that have underpinned the expansion of debt capital markets in Southeast Asia, with a focus on Indonesia and Malaysia. It identifies two types of communities of practice - one of planners/policymakers, one of market practitioners - as central to the production of capital market knowledge and traces the emphasis placed on them by state actors through consecutive capital market development plans. The article then moves on to examining how both countries have sought to implement regimes for the training and licensing of capital market professionals in the wake of the financial crisis of the late 1990s. It argues that these knowledge practices bestow capital markets with legitimacy which makes the practices of investing in and borrowing from debt capital markets socially acceptable, if not even a key developmental objective. This is in the context of both the Asian crisis and more recent crises repeatedly showing the dangers of speculative portfolio investment as well as Islamic stipulations against speculative finance in these two Muslim-majority countries.

Introduction

In the twenty years since the Asian crisis of the late 1990s, significant change has taken place in the financial systems of the developing Southeast Asia region.[1] Capital market finance has gained a foothold in financial systems which previously relied primarily on so-called relationship finance, notably bank lending and loans provided by finance companies and development finance institutions. The crisis drew attention to the vulnerabilities generated by the currency and maturity mismatches caused in particular by short-term, US dollar-denominated borrowing for long-term, local currency investments. In this context, the development of *domestic* capital markets was deemed an important means to allow borrowers to issue longer-term financial instruments – bonds and sukuk - denominated in domestic currency, and thus of reducing exchange rate risk and reliance on international financing arrangements. Policymakers saw a secondary benefit in that this would increase investment opportunities, mobilise local savings and channel them towards economic development and infrastructure projects in the region. Indeed, a new financial development had emerged that saw a significant role for the state in fast-tracking the development of capital markets which had taken centuries to develop in the Anglo-American core of global finance (Rethel 2010; see also Banner 1998).

As a consequence, the practices of borrowing from and investing in domestic capital markets have become significantly more popular among Southeast Asian government and corporate actors. Nevertheless, capital market finance differs from bank lending along several crucial dimensions, including: i) the way that deals are structured and executed in the primary market – for example loans extended by one bank or a syndicate of banks versus bonds (or sukuk as a Shariah-compliant alternative) that are broken up in smaller denominations with a potentially much larger number of investors; ii) the way that creditworthiness is assessed and

[1] This article focuses on developments in two of the founding members of the Association of Southeast Asian Nations, Indonesia and Malaysia.

monitored – in-house by lenders or by external credit rating agencies; and iii) the ease with which instruments can be traded in a secondary market – for example, over the counter and by private negotiation, if at all, or as listed bonds via a stock exchange. Without going into too much technical detail here, the development and expansion of capital markets requires an amount of practical knowledge that has been rather alien to the bank-oriented schemes of corporate lending that dominated the domestic financial systems of Southeast Asia until at least the crisis of the late 1990s.[2]

At the same time, the development of capital markets is not something that happens just by government *fiat*. Indeed, Hardie and Rethel (2018) show that despite a general rhetoric across so-called emerging markets from the mid-to late 1990s onwards in favour of market development, market outcomes differ significantly across countries and regions, driven by various constellations of interests and influence of both policy and market actors, domestic and foreign. Market development requires sustained and far-reaching commitments by both government and market actors. Moreover, not only do these new practices have to be introduced and disseminated, but to do so successfully they also have to be bestowed with a certain degree of social legitimacy – as something worthwhile (and profitable) to pursue. In this article, I demonstrate how state efforts to foster capital market-related communities of practice play a significant role in this legitimation effort and thus making these new knowledge practices acceptable in the region.

In studying these dynamics, this article's curiosity is driven by ongoing debates in the social and cultural studies of finance literature about the dynamics of financialisation, and the economic subjectivities to which it gives rise and by which it is shaped in turn (Martin 2002; Langley 2008). Echoing the words of Randy Martin (2002, 8), it seeks to 'prob[e] the new logics by which strange customs [here: capital market borrowing and investment] are made to feel normal'. Despite this somewhat different starting point, it also speaks to concerns of more institutionalist oriented work investigating continuity and change in state-market interactions in Southeast Asian financial systems (for example, Hamilton-Hart 2002; Cook 2008; Lai 2012a). I will also draw on a growing body of policy literature that provides comprehensive assessments of progress with capital market reforms from the perspective of the international financial community (e.g. ADB 2012; 2016; 2017; IMF and World Bank 2010; 2013; 2017).

In developing this argument, this article builds in particular on the notion of 'governed interdependence' developed by Linda Weiss (1995; 1998; 2003) and others and the analytical weight this conceptual approach gives to both government and market actors and their interactions in driving transformative economic change. However, the article somewhat differs from work in this tradition in that it does not so much focus on government-firm relations (thus presupposing a conceptualisation of markets as being made up of firms), but on how governments relate to the various elite networks and professional communities that similarly make up capital markets – investors, bankers, brokers, lawyers, financial and credit analysts and so on (see e.g. Abolafia 1995; MacKenzie 2006; Ho 2009; Robertson 2013).[3] On

[2] Malaysia began to develop its domestic bond market in the late 1980s. However, at the onset of the Asian crisis, the market was largely dominated by a small number of politically well-connected and/or state-linked companies. The single biggest issuer of bonds after the government was Cagamas, the national mortgage corporation, which is 20 per cent owned by the central bank.

[3] This is not to say that specific firm actors have not been pivotal to driving capital market development in both countries. Particularly noteworthy in this regard are the roles of Malaysia's national mortgage corporation Cagamas (Salleh 2006) and sovereign wealth fund Khazanah (Lai 2012b) in pioneering new financial structures

the one hand, this shift in analytical attention is due to the article's focus on the legitimating impact of professional expertise and state attempts to both reach out to and foster these professional communities as will be discussed in more detail below. On the other hand, however, it also reflects the increasingly fluid nature of employment relationships in the financial sector, where people move not only at an increasing velocity from firm to firm, but also between industries, from public to private sector and vice versa, and across national borders.[4]

In so doing, this article takes a closer look at the knowledge practices that have underpinned the expansion of domestic capital markets in Indonesia and Malaysia, more specifically at how practical knowledge in these two capital markets is produced and sanctioned. It loosely follows Annelise Riles (2011: 228) exposition of knowledge practices as 'techniques for governing the market' or in this instance for structuring governed interdependence. In both countries, the financial authorities – central banks, securities commissions and their like - have retained a strong influence on market outcomes. Moreover, they have an explicit developmental mandate.[5] However, there have been significant shifts in how they seek to fulfil this mandate, in particular when it comes to introducing and disseminating new financial ideas and practices. This includes the much greater attention paid to developing and incorporating the expertise of market actors; indeed, efforts to develop these sorts of expertise have been a major component of deepening the reach of capital markets in the region. It also entails a much more comprehensive licensing regime for capital market professionals. Moreover, connecting to Martin's question posed above, developing these skills plays an important role in normalising capital markets; more specifically in legitimising capital market borrowing and investment as a social practice that is not just to be tolerated, but actively promoted. (Perhaps even a bit astonishingly so, given the concerns the crisis of the late 1990s highlighted about speculative portfolio investment more generally, as well as Islamic stipulations against speculation that also have been important influences on the development of Islamic capital markets in these two Muslim-majority countries).

To substantiate this argument, the article draws on an analysis of economic and capital market planning documents that have been published in the two decades since the crisis. Insights obtained from these documents are complemented by audience observation of capital market industry conferences and training seminars as well as conversations with policymakers and capital market practitioners broadly conceived. The article draws in particular on two intense periods of fieldwork in the Southeast Asia region in September-November 2013 and March-May 2014, as well as several shorter return visits to field sites

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and the putative impact of Indonesia's new Board for the Management of Pilgrimage Funds, Badan Pengelola Keuangan Haji, in reforming investment practices. Further important firm actors also include a number of capital market supporting institutions such as credit rating agencies in both countries - RAM and MARC in Malaysia, Pefindo and PT Fitch Indonesia in Indonesia, as well as the bond pricing agencies Bondweb Malaysia and Indonesia Bond Pricing Agency (see also Rethel and Sinclair 2014). Indeed, many of the market professionals engaged in conversations as part of this research project over time had been employed at various capital market and capital market supporting firms.

[4] One of the stated aims of the ASEAN Economic Community, officially launched in late 2015, is to increase the mobility of skilled labour. Indeed, many of the (especially higher ranking) regulatory officials and market practitioners I talked to for this research travelled far and wide across the region and beyond, among other things to attend capital market conferences and other business meetings.

[5] This typically sets financial regulators in Southeast Asian countries apart from their Anglo-American counterparts more frequently discussed in the literature. However, it is not uncontested. For example, IMF and World Bank criticise in their most recent assessment of the Indonesian financial sector that the mandate of the two main financial regulatory bodies does 'not give clear primacy to financial stability over developmental objectives' (IMF and World Bank 2017, 2).

and follow-up interviews with regulators and market practitioners in Southeast Asia and overseas since then.

The article is divided into four parts. The next section will discuss in more detail the notion of communities of practice as developed by Jean Lave and Etienne Wenger, the application of this concept to capital markets and its significance in legitimating socio-economic change in the context of governed interdependence. The sections thereafter will, in turn, focus more squarely on two overlapping types of communities of practice that have consolidated in the aftermath of the crisis and which are both crucial to understanding the ways that capital market development in the respective countries has unfolded. They are a community of practice drawn from financial policymaking circles, in particular the financial bureaucracy, and a community of practice drawn from the financial industry, in particular capital market professionals such as financial and credit analysts, investment bankers, lawyers and so on, who enact financial change on an everyday basis. The final section reviews the core arguments of this article and concludes.

Transformative Capacity and Communities of Practice in the Financial Sector

The evolving character of government-business relations is instrumental to understanding economic change in East Asia and beyond. Linda Weiss (1995; 1998; 2003) has sought to capture this dynamic with the notion of 'governed interdependence'. For Weiss, governed interdependence entails taking seriously both government and industry, their dynamic interactions and the ways in which their capacities are mutually enhancing. Weiss recognizes the impact of different financial sector configurations on a government's ability to conduct industrial policy, but also argues in favour of placing greater analytical emphasis on the 'state's shifting techniques of economic management' (1998, 33; cf. Zysman 1983). Thus, for her the (changing) mechanisms through which states seek to realise their transformative objectives by forging new relationships with financial market players warrant analytical scrutiny.

However, there have also been significant shifts in the direction of economic policymaking. Part of developing Southeast Asia's economic transformation since the crisis of the late 1990s has been the relatively more important role of the financial sector as *target* of economic policymaking efforts in its own terms. Thus, while the ideal typic developmental state conceived of the financial sector as a *means* of economic transformation, given its importance in channelling funds to the so-called 'real' economy, more recently financial development has come to be seen as an end on its own, underpinned by an understanding of the financial sector as an important driver of growth and employment and as amenable to forms of 'industrial policy' (Lai 2015). This shift in perception of the financial sector as an important target of developmental policymaking has underpinned consecutive financial sector and capital market development plans.

For example, the Malaysian central bank envisaged that the contribution of the financial sector to GDP would increase from eight per cent to 10-12 per cent over the ten year period of its second financial sector development plan (BNM 2011). Moreover, in 2017, the job creation rate of the financial sector stood at 8.7 per cent, in the words of the central bank 'reflecting continued demand for high-skilled positions (96% of total jobs created)' (BNM 2018). In total, the financial sector provided employment for 164,885 people. In Indonesia, the financial sector also outperformed GDP growth and provided an increasingly important source of skilled employment (OJK 2018). For example in 2017, 722,329 individuals operated as branchless banking agents and over 22,000 Investment Fund Selling Agent Representatives had an active license in addition to many higher skilled financial sector occupations and licensees (OJK 2018, 111, 165). In both countries, the financial sector is seen as a high value-added sector whose success is important to escape the so-called 'middle income trap'. Therefore, it is not surprising that financial development, especially the development of Islamic capital markets as I will discuss later, has become a priority item on both policy and political agendas.

Applied to the case of capital market development, notions of governed interdependence and state capacity are not only of relevance when it comes to the state's ability to regulate the financial sector via the imposition of rules and enforcing compliance ('power over'), but also where it concerns the state's ability to bring about transformative change, typically in collaboration with market actors ('power through') (Weiss 1995, 595; see also Weiss 2003). In her work, Weiss pays considerable attention to how states engage firms, industry bodies and business organizations (see e.g. 1998, 55-59); this is certainly also the case in Malaysia and Indonesia, where the state reaches out to industry bodies in both consultative and more coercive manner. Examples of this are numerous, so I will only note a particularly relevant recent example here drawn from Malaysia, namely the central bank's 2017-2018 year-long consultations with Islamic banks, identified as a 'community of practitioners', on its value-based intermediation (VBI) framework. In addition to these voluntary consultations, the central bank also requested that the Association of Islamic Banking Institutions Malaysia (AIBIM) host the 2018 Global Islamic Finance Forum, once more on VBI, a considerable administrative and financial effort.[6] Indeed, industry consultations are also an important element of the formulation of financial sector and capital market development plans as I will discuss in the next section.

However, in addition to pursuing these specific types of what Weiss (1998) terms 'state-industry linkages', in the wake of the Asian crisis the state in both Malaysia and Indonesia has also undertaken a range of deliberate efforts to reach out to professionals and their associations. It is a reflection of the fact that, at least in the case of finance, the evolving nature of government-industry relations is key to understanding recent transformations in the region, not just on the firm, but also on the *individual* level, enriching the conceptualisation of state-industry linkages. It is part and parcel of the greater hybridity of knowledge, skills and careers as I will examine in more detail in the next two sections. In so doing, these linkages play a crucial part not just in shaping the trajectory of capital market development, but of financial systems as a whole. Moreover, they are part of a broader social trend of the growth and consolidation of groupings of middle class professionals in particular in urban regions, in the case of finance particularly concentrated in Kuala Lumpur and Jakarta.

The development of domestic bond markets in both Malaysia and Indonesia and the concrete shape it has taken has been significantly influenced by government efforts to develop 'communities of practice' and facilitate the 'situated learning' which they promote (see Lave and Wenger 1991). In both countries, the state has sought to develop novel approaches to development and planning with the aim to both enhance state capacity and equip regulatory and market actors with the skills necessary to operate in a world of globalising capital markets. More specifically and as I will detail below, the development of regulatory and market practitioner communities of practice, and the ways in which they interact, can

[66] See, for example, BNM (2017, 32). The 2018 Global Islamic Finance Forum was held at the central bank's Sasana Kijang complex, 3-4 October 2018; its motto was 'Value-Based Intermediation – Beyond Profit'.

enhance state capacity through coordinating and facilitating participatory learning. In this sense, the nurturing of these communities is a means of enabling state planners to realise their capital market development ambitions with the cultivation of expert knowledge serving as an important legitimising device.

Developing capital markets is far from being a straightforward endeavour: the development of capital markets is premised upon specific sets of regulatory (or policy) and financial/legal (or market) expertise. Prior to the crisis of the late 1990s, these forms of expertise had made only limited inroads into the domestic financial systems of developing Southeast Asia. However, as the next two sections will illustrate, they are an important means of the social legitimation of financialisation by linking it to the expansion of professional occupations. To this end, the remainder of this article will examine dynamics of knowledge production that have underpinned the expansion of domestic capital markets in Indonesia and Malaysia and their impact on how financialisation processes have unfolded. This is where the notion of 'situated learning' in 'communities of practice' developed by Lave and Wenger (1991), Lave (1991) and Wenger (1998) is particularly instructive and can offer novel insights into how states seek to enhance their transformative capacity.[7] Lave and Wenger (1991: 29) put forward a theory of learning that locates it within 'situated activity'. Learning is thus conceptualised as

> 'a social phenomenon constituted in the experienced, lived in world, through legitimate peripheral participation in ongoing social practice; the process of changing knowledgeable skill is subsumed in processes of changing identity in and through membership in a community of practitioners; and mastery is an organisational relational characteristic of communities of practice' (Lave 1991: 64).

One point that came up time and time again in interviews and conversations – with market practitioners, regulatory officials and representatives from the international financial community - was the importance of 'having done a deal' to being able to participate meaningfully in capital market development. Applied to the case of capital market development, then, situated learning includes specific knowledge that can only be learned 'on the job' such as how precisely to raise funds via the issuance of bonds, something that brings together market participants on the issuer and investor sides as well as a number of other 'knowledge intermediaries' – financial and credit rating analysts, legal counsels etc. who are, legitimately, involved in the transaction. Indeed, the notion of 'legitimate participation' in itself serves to legitimate the capital markets project as instrumental to the production of regulatory and market professional identities. In so doing, it resonates with the notion of 'deep transformation' advanced by Lave (1991, 81), but also speaks to concerns of transformative capacity. This includes, for example, the awareness on the issuer side of bond finance as part of the corporate finance tool kit in the specific country context, which has historically not necessarily been the case, given the dominance of bank lending until at least the onset of the Asian financial crisis.[8]

It is through repeated interactions and the situated learning that occurs in these interactions that abstract knowledge claims are translated into real world outcomes, a notion key to the communities of practice concept. These types of situated learning and legitimate peripheral participation do not only occur as part of everyday market practice - that is in the 'deals' that

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[7] There has been some limited reception of this approach in the IPE literature, see e.g. Broome and Seabrooke (2015).

[8] Interview with credit rating analyst, April 2014.

are executed when capital is raised via the bond and sukuk market. They also take the form of a proliferating schedule of training seminars and short courses, part of a wider professional development and education regime, where these deals constitute an important aspect of the case study material that participants from both policy and practitioner communities are asked to work through. Moreover, this sort of learning can also take the shape of the observation of discussions at capital market conferences where panel experts, again drawn from various fields including financial regulators, investment bankers and legal counsel, reenact such a deal and share its details with a wider audience (Rethel 2018a).

These two types of communities of practice – of regulatory and capital market professionals – intersect and overlap in various ways, some of which will be briefly discussed in the next two sections. Hybridity arises from the porosity of the boundaries between the different knowledge domains, namely state and market. This includes the revolving doors between state and market and the hybrid careers paths that ensue (see e.g. Seabrooke and Tsingou 2009; Lai and Daniels 2017). People move within and across industries and from regulatory to market practitioner communities and vice versa. Moreover, a regular exchange exists between these different domains of knowledge, e.g. via joint professional development training exercises, a policy deliberately pursued by regulators in both countries, albeit Malaysia placing significantly more emphasis on continuous professional development as I will discuss below. Note that these exercises go beyond the consultative mechanisms so aptly described by Weiss (1998, 50-52) in that they purposely involve collective participatory learning activities. In so doing, the notion of communities of practice becomes more expansive as well.

Nevertheless, there exists a tension between convergence across porous boundaries and persistently different knowledge dynamics, reinforced by career structures and material incentives such as compensation practices that can differ significantly between the public and private sectors. Knowledge domains, then, are not so much separated by rigidly demarcated borders, but they reflect different starting points. Thus, for Riles (2011: 73) the difference between policy technocrats and market practitioners is in 'placing the emphasis at different points'. And indeed, one of the key points warranting further scrutiny is to observe how – in the process of capital market development - the valorisation of different types of knowledge shifts as 'particular forms of knowledge [… come to be] regarded as more appropriate, more relevant, and "more professional"' than others (Seabrooke 2014: 52). To some extent, this has entailed greater deference to private/market authority, although the state remains an important arbiter of financial market knowledge, for instance in conducting planning exercises and setting requirements for professional development, ascribing it an important gatekeeping function.

It is important to point out that states in the region have not only focused on these professional communities in their efforts to enhance the reach of capital markets. Much work has also been undertaken to educate the general public about capital market investment. Examples include the organisation of annual capital market weeks in Malaysia and capital market road shows and expos in Indonesia. Governments in both countries have launched retail bond and sukuk programmes through which they market these financial instruments directly to consumers. However, giving these efforts their due appreciation would go beyond the scope of this paper.

In sum, in seeking to develop capital market-related communities of practice, states have - once more, but different from how they did so in advanced industrialised countries - come to be important gatekeepers of financialization, defined following Pike ad Pollard (2010) as the growing reach of 'capital markets, their intermediaries and processes in contemporary economic and political life'. Questions of reform and transformative capacity in this regard also speak to new contexts and practices of market development. The next section will examine how these configurations that constitute capital market development as the product of interrelated communities of practice, contribute to the formulation and realisation of capital market plans. The section thereafter will then focus more squarely on efforts to enhance (and certify) capital market knowledge among market practitioners.

Regulatory Communities of Practice: Planning Capital Market Development

Both countries regularly publish capital market development plans, with a five yearly time horizon in Indonesia and covering a longer ten-year period in Malaysia. The drafting of these plans constitutes a significant research effort, during which a number of stakeholders – both public and private (or state and market) – are consulted. This approach to development planning differs from what Weiss (1998, 52) calls the 'contrasting case … where the public sector "contracts out" most or a large part of its research and information requirement, as occurs more typically in Anglo-American settings', with an impact on state capacity. Nevertheless, it has to be stated that in both countries there exists a mix of in-house research, as for example the 2001 and 2011 *Capital Market Masterplans* drafted by the Malaysian Securities Commission and the 2016 *Indonesian Financial Services Masterplan 2015 - 2019* drafted by the Indonesian Financial Services Authority OJK, and instances where this sort of research is contracted out to consultancies, such as the 2014 Malaysian *Islamic Fund and Wealth Management Blueprint*, or the 2016 *Masterplan for Indonesian Islamic Financial Architecture* in Indonesia.

In both countries, regulators are seeking to find a balance between building and maintaining knowledge capacity in-house and the alignment with international practice that external consultants are thought to provide. This is not always an easy endeavour, and preferences tend to shift. For example, in Malaysia research staff tasked with drafting the 2011 Plan were reallocated to other departments following its publication. This led to a decline of concentrated in-house research capacity. In response to this, in 2017/18 the Securities Commission created the Institute for Capital Market Research Malaysia (icmr.my), based at the SC but outside its formal structures. Similarly, for the case of Indonesia more generally, Hamilton-Hart (2006) has shown that various development plans and strategy documents have been commissioned from consultants, but with a lack of attention to implementation and evaluation. The result are often expensive exercises with limited policy and real world impact. This certainly also pertains to capital market development. For example, OJK undertook extensive consultations in drafting its most recent development plan, also to bring stakeholders across the archipelago onboard and 'socialise' them into financial development, whereas other planning documents have been contracted out to consultants and drafted with input from only a limited number of domestic policymakers and practitioners.

More generally, in both Indonesia and Malaysia, the financial bureaucracy is at the forefront of devising and implementing financial policies with the aim both to regulate and further develop capital markets. It regularly reviews the development of the financial sector and develops longer term strategies and development plans, with varying time scales and also, it has to be said, varying degrees of success. Indeed, whilst 'structures do not come with an instruction sheet' (Blyth 2003), capital market development in Southeast Asia has been closely associated with a number of strategic documents and reports, masterplans and blueprints. However, in operationalising these ideas, issues such as the operating procedures of various ministries and agencies and the coordination between them also are of key relevance. For instance, Malaysia created a National Bond Market Committee in 1999 to 'provide overall policy direction for the orderly development of the bond market and to identify and recommend appropriate implementation strategies' (SC 2004). It consisted of senior officials from the Malaysian central bank (BNM), the securities commission (SC), the ministry of finance and the stock exchange among others. Shortly thereafter, the SC became the sole regulator for the bond market in 2000. And in 2001, SC issued its first *Capital Market Masterplan* (CMP1), setting out the development strategy for the following decade (SC 2001). *Capital Market Masterplan 2* (CMP2) was released in 2011 (SC 2011).

In Indonesia in 2005, the capital market supervisory board of the ministry of finance, Bapepam-LK, at the time the main capital market regulator, issued its *Indonesian Capital Market Masterplan* for the period 2005-2009 (Bapepam 2005).[9] Moreover, in 2007 Bapepam issued a short *Blueprint for Educating the Public on Capital Markets and Non-Bank Financial Institutions* (Bapepam 2007). The *Capital Market and Non- Bank Financial Industry Master Plan*, for the years 2010-2014 was released in 2010 (Bapepam 2010). In 2011, regulatory authority which had been dispersed across several agencies, including the central bank (BI) and Bapepam-LK was consolidated within the newly established regulator Otoritas Jasa Keuangan (OJK). In 2016, it issued the *Indonesian Financial Services Masterplan 2015 - 2019* (OJK 2016) already discussed. More recently, greater efforts have been undertaken to improve coordination among agencies with the aim of fast tracking bond market development initiatives. Specific initiatives of cross-agency coordination include the high-level Financial Market Coordination Forum (FKPPPK), the Bond Market Development Team (TPPSU), and the Capital Market Infrastructure Development Team (TPIPM). Moreover, Islamic finance has been accorded the highest priority and a presidential taskforce has been created. Nevertheless, both the greater number of financial sector and capital market development plans and coordinating taskforces indicates the greater fragmentation of planning and regulation in Indonesia, which also impacts the development of more cohesive regulatory communities of practice.

To summarise the discussion so far, the degree to which the drafting of financial sector and capital market development plans is a participatory process differs across the two countries, over time, but also across the various plans themselves. This has important implications in terms of enabling the emergence of regulatory communities of practice as well as their membership and internal cohesiveness. However, in the process of bond market development governments in both countries also became increasingly important and innovative issuers on their own, a dynamic that Giselle Datz (2008) aptly captures with the phrase 'from governments to market players' (see also Fastenrath et al. 2017). One issue that came up time and time again in interviews with both policymakers and market practitioners was the importance of having 'done a deal' to understanding the intricacies of bond markets – by governments to better understand and interact with market actors, by banks to better use this practical knowledge in their work with non-financial corporate clients and so on.

In Indonesia, between 2005 and 2010 then finance minister Sri Mulyani Indrawati introduced a number of wide-ranging reforms to the operation of the Ministry of Finance, including various standard operating procedures (Innovation for Successful Societies 2012).

[9] Two earlier capital market blueprints had been published, whose recommendations were drawn together in this masterplan (Bapepam 2005, 8).

Importantly, in the early 2000s Indonesia had begun to completely revamp its approach to sovereign bond issuance. Technical assistance was provided by the Asian Development Bank and the World Bank, among others, both important issuers themselves with an agenda of building domestic bond market capacity by raising funds in local currency, including the Indonesian rupiah and the Malaysian ringgit. Currently, with a share of bonds outstanding of 13.5 per cent of GDP, the government is the single largest issuer in the domestic bond market, followed at a distance by banks and finance companies who account for nearly two thirds of the 2.5 per cent fraction of GDP that corporate bonds outstanding constitute (IMF and World Bank 2017, 8-9). However, market practitioners see this as a very important step in the development of the Indonesian bond market as it adds both size and liquidity, upon which private sector efforts can build. Moreover, in 2008, the Indonesian government issued its first sukuk and again has become the main issuer of that asset class.

In Malaysia, efforts to develop the domestic bond market predate the Asian crisis; the government begun introducing a number of reforms – including to the way government bonds were issued domestically – in the late 1980s. However, with regard to its own practice, two important and related developments took place in the wake of the crisis. The first was the government's ambition to develop the market for sukuk, not just domestically but globally (Lai et al. 2017). In 2002, Malaysia issued the first global sovereign sukuk. Not only was this development instrumental to creating an international sukuk market, but it also clearly signalled that Malaysia – having undertaken significant efforts to develop its domestic market – was seeking once more to leave its imprint on global markets, the relationship with whom had been far from straightforward following the imposition of capital controls in 1998. The ambition to promote sukuk as an international asset class certainly played a significant role in this; moreover, in developing the relevant practical knowledge, the government acted on a suggestion by HSBC (Alim 2014, 120). The second development also took place in the Islamic capital market and addressed the point of instrument innovation. More specifically, the government changed the underlying structure of domestic Islamic government securities, first issued in 1983 to allow the country's emerging Islamic financial institutions to conduct their liquidity management in a Shariah compliant way from non-tradeable *qard hasan* (benevolent loan) to tradeable *bai al inah* (sale and buyback) in 2001 (and again to *murabaha* (sale with mark-up) in 2013, given a growing unease about the Shariah compliance of *inah* structures).[10] In so doing, the Malaysian government used its own practice to make sure the market took off, not just domestically, but globally; it also laid the foundations of a thriving secondary market. Again, having 'done a deal' served an important legitimating function.

The planning/regulatory communities of practice are not the only ones of relevance when it comes to understanding the development of capital markets in Indonesia and Malaysia. The lines between development planning and market practice can be blurred as these examples of the introduction of new financial instruments and bond market practices in both countries have shown,. Moreover, efforts are under way to foster market practitioner communities of practice more directly, which in so doing expand the set of possible configurations of state-industry linkages in focusing more squarely on capital market (supporting) professions. The next section will examine a number of these initiatives targeted at the development of market practitioner communities, and their role in moving from plan to practice.

[10] These structures are explained in more detail in Maybank Islamic (2013).

Market Communities of Practice: Professionalising Capital Market Development
The financial bureaucracy also takes a hands-on approach when it comes to the professional development requirements for financial market practitioners. For example, it devises professional training programs, sponsors training bodies and courses, and specifies the training agendas for financial markets practitioners in terms of licensing and continuous professional development requirements. Thus, for example, in Malaysia not only does CMP1 include the development of the corporate bond market as one of its main strategic initiatives (Securities Commission 2001, 17). It sets out a number of recommendations targeted specifically at 'training and education', including an emphasis on continuous professional education programmes (Securities Commission 2001, 51). CMP2, by contrast, sees the development of professional expertise no longer solely as within the purview of market development, but as part and parcel of wider shifts in the domestic and global economies. It identifies the need to 'build capacity and strengthen the information infrastructure' as a key challenge in the second decade of the new millennium. More specifically, CMP2 suggests that

> intermediaries will increasingly need to adapt to a changing workforce, a diffused working environment, and the pervasive use of technology in many aspects of capital market activities. In the changing environment, knowledge in the form of skills and capacity for innovation will increasingly define competitive advantage and economic growth potential. Initiatives are required to strengthen the knowledge base to support the expansion of the capital market into high value-add areas and to ensure the availability of skills to support innovative business processes. This requires ensuring that the educational and training pipeline provides a sufficient supply of skilled workers whose knowledge is reinforced through an effective learning environment through close collaboration between industry, academia and the public sector.' (Securities Commission 2011, 49).

CMP2 further foresees a number of efforts to 'widen access to the bond market', 'particularly in supporting the structural shift towards the services and knowledge-based industries' (Securities Commission 2011, 26). These include the broadening of the investor base and the opening up of the market to participation from retail investors, which is seen to entail 'education activities'. The development of knowledgeable skills, *pace* Lave and Wenger, is thus characterised as a key component of capital market development, at par with the development of the product range and physical market infrastructure.

The Indonesian plans similarly emphasize the importance of developing capital market expertise. Thus, the 2005 *Masterplan* identifies a lack of knowledge about the bond market as a key impediment to market development and sets out to develop the 'Indonesian capital market community' (Bapepam 2005, 12). It lists a number of recommendations for developing both the 'role and quality of players', including 'efforts to upgrade skills and capabilities … by giving the government officials opportunities to continue their formal education on their own or through third party scholarship program, or to attend seminars, short course and training programs in or outside the country' (Bapepam 2005, 48). Focusing on market participants more broadly, the Masterplan suggests that '[a]nother important factor that has to be maintained for the development of the capital market is enhancing awareness of participants to boost their sense of belonging toward capital market' (Bapepam 2005, 53). As a matter of fact, the idea of 'belonging' strongly resonates with the notion of 'legitimate peripheral participation' of the communities of practice approach articulated by Lave and Wenger (1991). In so doing, it bestows capital market development with social legitimacy.

In its most recent assessments of the Indonesian and Malaysian bond markets, the Asian Development Bank highlights the fact that professional investor communities have emerged in practice in both Indonesia and Malaysia, even if Indonesia lacks a regulatory definition of this (ADB 2016; 2017). Wenger (1998, 103) points to the role of communities of practice 'as shared histories of learning'. In the context of capital market development in Indonesia and Malaysia, these shared histories are instrumental to understanding how the move from regulatory plan to market practice is mediated. It is an important aspect of how governed interdependence is being reformatted in Southeast Asia and in so doing transforms regional financial systems. Market actors, who enact capital markets on an everyday basis, are comprised of a wide range of professionals, including not only issuers, investment bankers and investors, but also lawyers who provide legal counsel on deals, financial and credit rating analysts who provide data and opinions on industries and specific financial instruments and other professionals occupied in what in policy speak has been termed capital market supporting professions and institutions (e.g. ADB 2012, 286; see also Rethel and Sinclair 2014).

Here again, both abstract and experiential forms of knowledge are of relevance; a concrete example in this regard is the distinction between the valuation and the execution of a bond or sukuk.[11] The former draws on more abstract, academic knowledge, notably a set of rather technical ideas from which investment bankers can derive bond pricing formulae. It is rather generic knowledge that easily travels from country to country (or business school to business school). This is especially the case with regard to so-called 'plain vanilla bonds', which continue to dominate the Indonesian market, but these formulae also serve as basis for all sorts of structured finance and even Islamic financial instruments (see also Lai et al. 2017). [12] On the other hand, we have the matter of the execution of a bond. This is where knowledge of local market conditions, including such things as tax codes or business competition is relevant. It is also where historically domestic financial institutions have better knowledge of local borrowers (Huff 2003: 321). It is here that we have seen greater variation in the two decades since the Asian financial crisis as there has been a significant change in the body composite of capital market professionals with a greater number of domestically trained professionals entering the market. At the same time, it is important to note that the work of investment bankers is only one example. Similar dynamics are at stake when it comes for instance to the work of financial lawyers, who have to translate abstract legal principles that form the core of many bond contracts, such as e.g. beneficial ownership, into documentation compatible with national laws. Most noteworthy, perhaps, and rather distinctive to the context of Muslim-majority Indonesia and Malaysia, is the role of Shariah capital market experts, who translate market practice into the epistemic frameworks of Islam and Islamic legal principles into market practice.

In both Malaysia and Indonesia, efforts to develop capital markets also saw the strengthening of licensing regimes for capital market professionals. To some extent, these schemes mirror the licensing regimes in operation in capital markets elsewhere, but there are significant differences in the provision of training and emphases even across these two country cases. In Malaysia, the 2007 Capital Markets and Services Act stipulates the licensing of a number of capital market intermediaries, including the principal adviser to the issuer of a bond and underwriters. However, different from the Indonesian case, legal advisers do not require a licence (ADB 2016, 61). Both countries also have licensing or registration regimes for capital

[11] Conversation with investment banker, Euromoney AEC conference, April 2014; conversation with legal counsel, WIBC Asia Summit, May 2016.
[12] Interview with credit ratings analyst, April 2014.

market Shariah experts. Both INCEIF, the International Centre for Education in Islamic Finance and IBFIM, the Islamic Banking and Finance Institute were set up on initiative of and with financial support from the central bank to offer professional qualifications in Islamic finance. Their programmes comprise a combination of conventional financial education and training in Islamic jurisprudence, in particular *fiqh muamalat* (Islamic commercial law). Moreover, given efforts to enhance the Shariah quality of the Malaysian capital markets, significant attention is being paid to factors specific to the Malaysian context, such as the evolution of permissible contracts over time, or the distinctive regulatory environment with the Shariah Advisory Councils of the Securities Commission and central bank at its apex (see also Rethel 2018b).

Indeed, in the aftermath of the Asian crisis there has been a proliferation of (Islamic) finance programmes, offered by both industry and third sector providers. In response, the Malaysian central bank and Securities Commission created the Financial Accreditation Agency in 2012 to act as standard setter and quality control for financial education programmes, with accreditation seen as bestowing legitimacy. Moreover, growing emphasis was placed on continuous professional development and the Securities Industry Development Corporation (SIDC, the training arm of the Securities Commission) launched both its Continuing Professional Education programme, making it mandatory for 'all licensed intermediaries to continually update and refresh their technical knowledge, skills and ethical standards', and its Industry Transformation Initiative (SC 2014, 245). Furthermore, and in contrast to the development of capital markets in Anglo-America, which is more left to market forces, the SIDC also conducted a survey of the capital market talent requirement among 235 securities industries organisations, including brokerages, investment advisory firms and so on (SC 2014, 246-7).

In Indonesia, the state similarly mandates the licensing of capital market professionals, most recently promulgated in regulation No. 79 POJK 04/2017 for the categories of broker dealer, investment manager representative, underwriter representative and Shariah capital market expert.[13] However, certification is delegated to self-regulatory organisations and professional associations. Thus, both PPRM, the Association of Capital Market Professionals, and HKHPM, the Association of Capital Market Legal Consultants, administer tests for the qualifications of certified capital market professional and legal counsel respectively, which form part of the submission to OJK for obtaining accreditation. Competence standards are developed by the Professional Standards Board for Capital Markets (LSP-PM), an institution set up as part of Indonesia's ambitious agenda to create national work standards. In addition, training for capital market professionals leading to the professional certification examination is provided by The Indonesia Capital Market Institute (TICMI, read: teach me; ticmi.co.id), located at the stock exchange, which serves both as reference centre and training hub for the Indonesian capital market. TICMI is a subsidiary of the main capital market self-regulatory organisations: the stock exchange (IDX), the clearing and settlement corporation (KPEI) and the central securities repository (KSEI). These organisations were mandated by Bapepam, and later OJK to enhance training provision in the Indonesian capital market and established TICMI in response. In addition to its certification programmes, it also runs capital market schools targeted at educating the wider public about the benefits and how tos of capital market investment.

[13] Unlike in the Malaysian case, to obtain accreditation as Shariah capital market expert, licensees also require the endorsement by the National Shariah Board of the Indonesian Council of Ulama in addition to the relevant certification.

While Indonesia has focused on strengthening the criteria for admittance to the community of capital market professionals, Malaysia has put increasing emphasis on fostering continuing professional development. In both countries, there also exist various private training providers and accreditation schemes, most importantly perhaps the local branches of the CFA Institute which provides the internationally recognised Chartered Financial Analyst qualification. Nevertheless, certain categories of capital market professionals are only allowed to practice once they have obtained state recognition. As a matter of fact, capital market training initiatives also go beyond engagement with professional communities, for example in the form of various outreach activities by both OJK and SC to university students and lecturers as well as the general public. However, ultimately it is in its engagement with professional communities that the state adjudicates between different types of knowledge as to what does and should work in any given domestic context.

One of the major criticisms of communities of practice approaches is that they ignore power relations, despite an awareness that these communities indeed consist of 'members of varying standing in terms of experience, expertise, age, personality, [gender], authority within the organisation and so on' (Roberts 2006, 627). Importantly, the notion of legitimate participation in itself also entails the possibility of various forms of exclusion. Capital market development is a case in point in that it focuses on ostensibly rather complex forms of finance whose workings are only accessible to a small, but expanding circle of elite professionals. For example, in Indonesia at the time of writing, around 800,000 securities investment accounts were held by individual private investors, out of a population of more than 250 million people (OJK 2017). It is compounded by the even smaller number of about 6-7,000 broker dealers overseeing these accounts, a ratio of around 1:130, much worse than in the domestic banking sector, or indeed the neighbouring Malaysian capital market. As a matter of fact, the IMF and World Bank, in drafting their most recent Financial Sector Assessment of Indonesia, included improving 'financial literacy of issuers and investors', i.e. core participants of the developing debt capital market, as one of the key recommendations (IMF and World Bank 2017, 6).[14] Even at the capital market industry conferences and training seminars mentioned above, where the work of the communities of practice is re-enacted and new, informal state-industry linkages are forged, the ability to participate and learn is impacted by a range of factors, including varying language capabilities. It is not without reason that TICMI has included a regular English presentation requirement in its prestigious Capital Market Professional Development programme, given the dominance of the language in international capital markets (although in terms of regulation, Bahasa Indonesia remains the only legal language in the Indonesian capital market, see also ADB 2017, 106).

It is important to note that the concept of knowledgeable skills recognises this differentiated capacity to participate – what these communities produce is sufficient expertise and sufficient translation between knowledge domains rather than necessarily full mastery as a pre-condition for market development. In this regard, the more granular approach to understanding capital market development as the product of interrelated communities of practice I have developed in this article offers a framework for teasing out the heterogeneity and unevenness of capital market development in the Southeast Asia region. Indeed, the relationship between transformative capacity and participatory learning is not necessarily a straightforward one, and varies significantly even across the two country cases on which this article has focused. While the Malaysian capital market is seen as an established market with

[14] Note, however, that this recommendation is not included in the report as published on the IMF website.

strong international linkages in particular when it comes to Islamic finance, the Indonesian market has been classified as an emerging domestic market (CARI 2013, 3).

In both countries, capital market development has been a far from straightforward process and the uptake of state initiatives by market actors has been mixed. For example, in Malaysia efforts to broaden the credit profile of the bond market have been hampered by a lack of investor appetite for lower rated bonds, whereas in Indonesia only a limited number of corporate issuers have been taken to market, let alone developed a regular presence in the domestic bond market. The growth of the sukuk market in Malaysia has benefited from fiscal incentives, giving rise to concerns about what will happen once favourable treatment expires. Nevertheless, acceptance of capital markets has increased significantly in both countries and both regulatory and market communities of practice have contributed to this shift in perception towards capital market development – and becoming a capital market professional - as aspirational goals. In so doing, they are endowing the process of capital market development with the social legitimacy that professional expertise bestows.

Conclusion

The aftermath of the Asian crisis of the late 1990s has seen greater support for capital market finance in the Southeast Asia region. Focusing on the experience of Indonesia and Malaysia, this article has argued that this socio-economic shift has been underpinned by the progressive promulgation of capital market knowledge. It cannot be emphasized enough that these capital market practices are very new to the region. This article has identified two interrelated communities of practice – one drawn from the financial bureaucracy, central banks, securities commissions and their like; one drawn from the market, including not just issuers and investors, but a whole range of capital market supporting professions – as crucial to understanding the production of capital market knowledge in the region. It has drawn attention to the relationship between these communities of practice and how they are structured and mediated on the one hand, and transformative state capacity geared towards the expansion of the reach of domestic capital markets on the other. In so doing, the article traced through capital market development plans how deliberate efforts to develop markets gave rise to new formations and valorisations of capital market expertise. The ways in which different modes of knowing and domains of knowledge intersect are consequential for the ways in which capital markets in Southeast Asia have emerged and expanded. This also explains persistent differences in capital market development, despite shared experiences such as the Asian financial crisis and shared ideas such as a widespread consensus after the crisis on the necessity of developing domestic bond markets.

However, the community of practice approach also is reflective of wider changes in the economy as Southeast Asian countries such as Malaysia and Indonesia seek to move beyond their extractive and manufacturing bases and build so-called knowledge economies. If the division of labour was a core feature of the extractive industries and assembly line production that underpinned economic growth in earlier, 20th Century developmental state type settings, then the notion of communities of practice that bring together variously situated professionals in the production of capital markets as explored here - or in processes such as techno-industrial upgrading and the support of new forms of entrepreneurship as discussed with reference to South Korea and Taiwan by Klingler Vidra and Pacheco Pardo and Thurbon in this collection - constitutes a significant shift that warrants closer scrutiny.

Increasingly, the state's transformative capacity is realised less through direct intervention and more through an ever expanding set of state-industry linkages, pertaining not just to the relationship between state agents and firms and industry bodies, but also between the state and various professional communities. Such dynamics are also part of wider demographic shifts in the region as states have to engage and manage the expectations and aspirations of an expanding middle class from which these practitioners are drawn and amongst whom state projects have to be justified and legitimised. Indeed, it could be argued that the influence of the state has become stronger than ever in charting the path of a financial economy whose social reach has become more and more pervasive. In so doing, state-industry linkages play a significant role in shaping trajectories of financialisation, in Southeast Asia and elsewhere.

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