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Abstract

This paper argues that current financialization research has underplayed the strategic ways in which the state actively mobilizes firms to enact financialization scripts for political-economic purposes. It offers a framework of state-led financialization whereby co-constituted production of acceptable business practice by firms and states results in increasingly financialized business strategies and activities. The mechanisms through which the state is able to shape the financialization of firms are demonstrated by empirical analysis of two major Singaporean banks and their transformation into financial services corporations. The conclusion discusses how a renewed focus on the role of the state in financialization could deepen our understanding of financialized modes of production, state-firm relations and capitalist dynamics.

Keywords

Financialization, state, banks, Singapore

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1. Introduction

> *The 21st century began with a 'Big Bang' for our regulatory authority. The Monetary Authority of Singapore [MAS] told the shareholders and boards of the […] banks that we had to prepare ourselves for global competition when Singapore joined the World Trade Organization [WTO] […] and told us that size mattered. (Speech by Ngiam Tong Dow, 14 November 2006, in Ngiam, 2011: 188)*

While debates following the 2008 financial crisis have highlighted the systemic risks to national economies and global finance presented by banks deemed 'too big to fail', banks in Singapore have been facing pressure to grow ever larger. This resonates with the long-standing aspiration of the MAS to develop Singapore as a preeminent international financial center (IFC) with local banks of sufficient financial clout to achieve this objective. Prior to 1998 there were six major local banks; within five years, a series of mergers and acquisition resulted in the current three banks of DBS bank (formerly Development Bank of Singapore), Oversea-Chinese Banking Corporation (OCBC) and United Overseas Bank (UOB). These mergers significantly increased the banks' deposit bases, which were deemed vital to promoting extra-territorial competitiveness, even if that meant a loss of domestic market competitiveness. The enlarged banks were to expand their non-deposit taking business, transforming their business models from traditional banking services to more complex financial institutions offering an extensive and sophisticated array of financial products and services to an expanded customer base in regional and global markets.

The above development reflects wider trends in banking over the past three decades. Erturk and Solari (2007), for instance, note how 'interest-based banking' has given way to a ‘fee-based banking’ model for both retail and investment banks in Europe and the USA. Gorton and Metrick (2012) point to a shift from traditional banking to ‘securitized banking’ as sources of funds for banks. These shifts from ‘bank-based finance’ to ‘market-based banking’ (Hardie et al. 2013) have important implications for understanding the role of banks in the contemporary capitalist system. In the case of Singaporean banks, we see the transformation of local firms from *banking* firms centered on traditional loan mediation into *financial services* corporations with greater emphasis on fee-generating activities and deeper participation in financial markets for capital gains. This financialization of banks as seen in the shift towards financial logics and activities, which includes the adoption of shareholder conception of control, increasing business focus on financial markets and products, and the enlargement of non-bank financial investments in insurance and other related functions (Dore, 2008; Erturk et al., 2008; Froud et al., 2006; Williams 2000). Rather than being driven by a local banking crisis or market-driven ideologies, however, these dramatic changes in Singaporean banks were propelled by an active government that has banked on financial services as one of the key industries to secure Singapore’s position in the global economy (Cook, 2008).

Our key objective in this paper is to analyze the role of the state in the financialization of local banking firms during an intense period of industrial change. Three approaches can be identified from existing studies on financialisation and the state. The first approach (which has been dominant in the literature) positions financialization as a retreat of state functions, with increasing reliance on financial logics and market-based solutions for social welfare (Clark 1998; Martin, 2002), and overall state ‘decline’ in the advance of neoliberalism (Duminel and Lévy, 2004; Stiglitz, 2003). A second strand focuses on financialization of the state itself as state actors and institutions turn towards financial markets to solve problems such as budget deficits or economic recessions

(Aalbers et al. 2011; Bassens et al. 2013; Hendrikse and Sidaway, 2014). A third approach, one which we argue has been underdeveloped, deals with state-led financialisation. We argue that current literature on financialization has been somewhat limited in terms of analyzing the state as a vital and strategic actor in the increasing dominance of financial logics and capital markets in firm behavior and business strategies. While financialization studies do feature the state and state actors regarding financial deregulation and impacts on institutional change, firm behavior and everyday habits of savings and borrowing (van der Zwan, 2014), the analyses tend to emphasize market imperatives and neoliberal logics over state power and functions as in the first approach. While the second approach positions financialization as a deliberate pathway sought by state actors and policymakers, studies tend to dwell on state incapacities to resolve internal crises and emphasize deregulation for greater market efficiency. We argue that the first two approaches underplay the strategic ways in which the state actively mobilizes institutions and firms to adopt and enact financialization scripts for political-economic purposes, i.e. state-led financialization.

In this context, we aim to contribute to the literature on financialization and the state by focusing on state-firm relations in the mobilization of financialization processes and their developmental outcomes. This state-firm nexus is crucial for understanding the transformation of local firms from banks to financial institutions within the context of state-led financialization. This mode of financialization is not limited to 'market producing' activities, such as mortgage-backed securitization in the U.S. (Schwartz and Seabrooke, 2008; Gotham, 2014) and Netherlands (Aalbers et al. 2011), but is a process born out of a normative influence in the everyday business practices of firms by states. This, we argue, is a deeper influence beyond merely the unintended consequences of opportunistic businesses feeding off of the autonomous actions of the state; it implies a co-constituted production of acceptable business practice by firms and states resulting in increasingly financialized business strategies and activities of banks. As a major player in global financial networks, Singapore provides a useful lens through which to examine the dynamics of state-firm relations during a particular period of financialization—we define this as the transformation of local firms from *banking* firms to *financial services* corporations (Erturk and Solari, 2007) as the result of state intervention and influence through both formal and informal channels.

To examine how the state might shape the financialization of banking firms, we examine state-led financialization of banks in Singapore through the case studies of two local banks (DBS and OCBC) and their business and organizational changes. The bulk of corporate data came from the historical archives of the National University of Singapore in the *Development Bank of Singapore: resource file* and the *OCBC: resource file*. These were compiled by the Information Resources Unit of OCBC and donated to the university in 2004. The files contain 20 volumes from 1964 to 2003 and consist of newspaper articles, press releases, regulatory announcements required by MAS through their reporting system MASNET, company reports, in-house newsletters and bulletins.[1] These archival sources are complemented and updated with other secondary data to construct a timeline of events and responses for the two banks, and unpack the processes and outcomes of state-led financialization over the past two decades. Secondary data sources include policy documents from the MAS and Ministry of Finance, speeches at official events and parliamentary seatings, annual reports, press releases and other documents produced by DBS and OCBC, media reports and industry publications. The empirical analysis demonstrates the direct role of the state in the financialization of these banks. This is evident through state-led corporate restructuring and the banks' shifting profit streams as a

[1] The collection likely ended when published materials became readily available via electronic sources.

result, and is set within a context of the state's desire to secure national economic growth through the expansion and regionalization of banking firms.

The next section consists of a critical review of the literature on financialization, focusing on the role of the state and the reinvention of banking over the past three decades. It then lays out some mechanisms through which the state could intersect with banks to bring about financialized business practices and modes of growth. Turning to Singapore, the case studies of DBS bank and OCBC are used to demonstrate how the state shaped the financialization of banks through different mechanisms, in accordance to their different business strategies, geographical footprints and firm histories and cultures. In conclusion, we reflect on how a renewed focus on the state and state-firm relations could deepen our understanding of the role of the state in financialization.

2. Financialization and the state

In recent years, financialization has gained rapid currency as a way of describing the growing power of financial markets and financial institutions in economic, political and social life (Pike and Pollard, 2010; French et al., 2011; Lapavitsas, 2011). Studies range from how the finance sector dominates national political economies (Blackburn, 2006; Dore, 2008), to how firm strategies and management are increasingly beholden to the logics of finance (Williams, 2000; Froud et al., 2000; Krippner, 2005; Ho, 2009), and the ways in which households and individuals are tied into increasingly complex relationships with the international financial system (Langley, 2008). Krippner's (2005) definition has been particularly influential in the literature, describing financialization as "a pattern of accumulation in which profits accrue through financial channels rather than through trade and commodity production" in the national economy and large corporations of the USA (p. 174).

A dominant strand in the financialization literature has been to position financialization as state 'decline' in the advance of neoliberalism (Duménil and Lévy, 2004; Stiglitz, 2003). The adoption of financial logics is seen as an exogenous shock to political economies as they are 'captured' by finance and financial actors, or as an unintended consequence of deregulation and changes in monetary policy in competing for capital as a scarce resource (see Streeck and Thelen, 2005; Krippner, 2012). Connections are made with neoliberalism (Duménil and Lévy, 2004; Kotz, 2010) in terms of how financialization is seen as a political project of universal extent to which political economies of various stripes are assumed to be universally impacted (Engelen, 2008). According to this perspective, the interdependent relations between financialization and neoliberal governments thus result in multiple rounds of deregulation and government support fuelling the growth of the finance industries (Helleiner 1995) and reifying the prevalence of financialization as techniques of governance (Harvey 2005; Dymski 2009; Krippner 2012). Financialization is particularly evident in firm behavior through shareholder conception of control and shift in firm activities towards capital markets. The increasing power of shareholders and their desire to raise corporate value, calculated in terms of stock market valuation, has pressured management into seeking wealth creation in non-traditional venues such as financial and property markets rather than through production or innovation (Froud et al., 2000; 2006; Clark et al., 2002; Engelen, 2003; Duménil and Lévy, 2004). This 'narrative of numbers', in which key financial indicators such as shareholder value become prominent metrics of success, has resulted in distinctive changes in firm behavior and corporate governance away from core business activities towards financial investments and indicators.

More recently, scholars have suggested that far from 'retreating' or 'declining', the state has taken on qualitatively different roles in its relationship with financial markets, financial institutions and non-financial firms. A second strand has developed that focuses on financialization of the state itself as state actors and institutions turn towards financial markets as solutions in the face of economic (and political) crises such as budget deficits or economic recessions (Aalbers et al. 2011; Bassens et al. 2013; Hendrikse and Sidaway, 2014). These studies have contributed significantly to understanding how geography and states intersect in the process of securitization by analyzing the unfolding of state-finance relationships at and across different scales (e.g. municipal, national, regional) in bringing about variegated geographies of financialization. The financialized actions of state actors and institutions in these studies, however, are seen as rooted in and also leading to further losses and crises, particularly when set within the context of the 2008 global financial crisis. While other works have highlighted different forms of intervention leading to the production of the financialized economy (see Couch, 2009; 2011; Prasad, 2012), particularly in terms of financial deregulation and impacts on institutional change, firm behavior and changing everyday habits of saving and borrowing (Langley, 2008; Krippner, 2012; Engelen et al., 2014), these analyses still tend to emphasize market imperative and neoliberal logics and the power of financial markets and institutions over state decisions and actions. Such a perspective does not adequately capture the agency of the state in the strategic mobilization of financialization processes and impacts when it plays a much more vital role than is often assumed by the narratives of 'global' finance.

While the second approach above has moved the literature forward in engaging more explicitly with an active role of the state in financialization, we wish to push the argument further in the form of a third strand dealing with state-led financialisation. In drawing out this notion of state-led financialization we suggest that the agency of the state in relation to finance is not merely reactive but could at times be the primary mover of firms' actions towards financialized growth; financialization is posited as a strategic political-economic objective. This does not necessarily mean that the state itself has been financialized (although it is certainly possible) as is often the case with the second approach mentioned above. Rather than just examining the regulatory role of the state in enabling financial developments, or changing financing imperatives of state functions, we focus on how the state might shape the financialization of firms themselves, increasing the dominance of financial logics and capital markets in firm behavior and business strategies. The political agency of the state in financialization is highlighted by Engelen and Konings (2010) in their study of differing modes of financialization across selected countries. By analyzing the financialization of the US and UK (as Liberal Market Economies), Germany and France (as Coordinated Market Economies), and the Netherlands (as hybrid) as consensual, contested, and compartmentalized respectively, they demonstrate how specific roles are carved out by states for finance in the economy and with differing outcomes. The actual scope of financial agents to shape the geometries of power within their respective financial regulatory environment for wealth creation is therefore strongly circumscribed by state actions or capture, despite the broadly common experience of financialization. This points to the need for financialization studies to engage more explicitly with how state actions and directives could shape firm behavior towards (or away from) financialized logics and activities.

In this paper, this takes the form of analyzing the transformation of traditional banking firms into financial services corporations as the result of state policy goals for securing national economic growth. We suggest that states could shape the financialization of banks in a number of ways. Firstly, states could shape firm behavior and business decisions via direct ownership (either full or partial) of banks. Although many banks have undergone privatization as part of the broader trend of denationalization of state assets and institutions since the 1970s, many governments in Asia and other parts of the world still have significant ownership stakes in banks, even if they are not completely state-owned entities (China would be an obvious example here). The contemporary relevance of state ownership of banks is also demonstrated after the 2008 financial crisis with the flurry of bank bailouts in the USA, UK, Netherlands and elsewhere [2]. Secondly, regulatory mechanisms could be used to shape the responses and behavior of banks towards different types of financial markets and products by making it more or less profitable or tedious to pursue particular business development strategies. Changes in the licensing of banking activities, for instance, could be used to either ‘ring-fence’ certain financial activities for foreign banks according to tiers of licensing (thus shielding domestic banks somewhat) or encourage foreign competition so as to push domestic banks into exploring new markets. Thirdly, states could intersect with banks more indirectly through a form of ‘leaning in’, whereby state interests or official rhetoric could filter through to management decisions via influential positions on the boards of directors of banks. A structure of governing elites consisting of former politicians, civil servants and regulators circulating between state institutions and governing bodies of banks is common in many Asian economies and encourages compliance with financial policies and regulations (Hamilton-Hart, 2002). Other practices such as regular consultations between regulators and industry actors also serves as a valuable channel through which proposed policy changes could be fine-tuned and gain the support of private sector before implementation. Finally, smaller banks may be influenced through the ‘demonstration effect’ of industry leaders, particularly if the leading banks are also under some form of state-ownership or patronage, as the business strategy and behavior of the latter banks often signal upcoming growth sectors (which usually benefit from financial and other forms of support from other state development agencies).

[2] See Langley (2015) for a nuanced and extensive analysis of how states and financial institutions intersect in the course of financial crisis management interventions in the US and UK (2008-2011).

The above is a suggestive rather than an exhaustive list; moreover, these mechanisms are non-exclusive and could be utilized by state actors in tandem to achieve the desired changes in firm behavior, in this case, the financialization of banks into financial corporations. While the actual mobilization of these mechanisms depends on specific state-firm relations, such as institutional histories, socio-political networks and existing geographical and sectoral distribution of business operations, the ability of the state to utilize both direct and indirect forms of intervention enables broadly financialized firm behavior in accordance with political-economic goals. To explicate the processes and outcomes of state-led financialization, the rest of the paper focuses on the case of Singapore and how the financialization of DBS (a government-linked bank) and OCBC (with origins as a family-owned bank) has unfolded through the above mechanisms.

3. State-led financialization: From banking to finance

While Singapore's export-led manufacturing growth strategy has been well documented (see for example Rodan, 1989; Perry et al., 1997; Low, 1998), the finance sector has also featured prominently in Singapore's economic development plan since the 1980s (Hamilton Hart, 2002; Tan and Lim, 2007). In 1985 Singapore faced its first economic recession and its first government deficit since independence (in 1965) due to depressed demand for manufactured goods and the petro-dollar debt crisis (Tan, 2005). A Sub-Committee on Banking and Financial Services (SBFS) was commissioned to conduct a review into other possible growth sectors; its report highlighted banking deregulation (with particular reference to the US, UK, Japan and Australia) as desirable for creating greater efficiency, and the securitization of debt and integration of loan and capital markets as favorable and necessary conditions for deep capital markets and a developed IFC (SBFS, 1985). The report also called for the MAS to "take on a more developmental role" (ibid.: iv) like that of the Economic Development Board (EDB)[3] in order to boost the financial services industry and to contribute to long term economic growth of Singapore. This focus on banking and finance re-emerged in another report following the 1997 Asian financial crisis (Committee on Singapore's Competitiveness, 1998). More specifically, recommendations of strategic sectors highlighted 'non-traditional' areas of finance—including fund management, risk management, equity markets, debt insurance, corporate finance, insurance and reinsurance, and cross-border banking — that would enable Singapore to become a premier financial center.

This outlook towards banking and finance needs to be situated against the economic context of that period. While the state was able to pursue a labor-intensive export-oriented manufacturing strategy in the 1960s and 1970s, this mode of accumulation was no longer effective by the 1980s due to rising domestic costs and competition from cheaper neighboring locations. In response, a national strategic thrust known as 'Regionalization 2000' was launched to develop an 'external wing' to Singapore's economy, through the overseas expansion of domestic firms and establishment of industrial parks in other Asian countries (Yeung, 1999; 2000). The regionalization of domestic firms involved manufacturing and government-linked corporations as well as banks—not only to facilitate the regionalization of manufacturing and other service firms but also as wealth creating enterprises in their own rights. The transformation of the local banking industry into a globally-oriented financial services industry was therefore a developmental goal deemed vital to Singapore's long term competitiveness and economic success (Figure 1)[4].

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[3] The EDB is a statutory board that coordinates the industrial policy of the Singaporean government, and acts a promotional agent to facilitate foreign direct investment into Singapore.

[4] While the regionalization thrust was broadly similar across a number of industry sectors (e.g. electronics, food, packaging, industrial equipment), most manufacturing firms were encouraged to regionalize due to cost factors rather than specifically to bolster domestic industry growth. In comparison, the regionalization of Singaporean banks was deemed

*** Figure 1 around here ***

The transformation of Singapore's banks into globally-oriented entities involved substantial reorganization of the businesses from traditional loans intermediation into financial services corporations embedded in capital markets. This reflects wider trends in global banking since the 1980s whereby banking activities in Europe and the USA have shifted from interest-based banking to fee-based banking for both retail and investment banks (Erturk and Solari, 2007). Sources of funds for banks have also changed from traditional banking (through loan intermediation) to more securitized modes in order to fuel business segments and geographical expansion (Gorton and Metrick, 2012). Speaking at the grand opening of DBS' new headquarters in 2012, Deputy Prime Minister and Minister for Finance Tharman Shanmugaratnam (17 October 2012) emphasized the "growing role of non-bank capital to complement bank financing" as a dominant trend in Asia with implications for how Singaporean banks could position themselves in the region. This shift from 'bank-based finance' to 'market-based banking' (Hardie et al., 2013) was seen as the way forward for Singaporean banks to grow and become substantive enough for regional leadership and global competition (MAS, 2012).

Regulatory changes were of strategic importance in the state-led financialization of banks, particularly during banking liberalization from 1999 to 2004. The banking liberalization policies had three main components: bank mergers, divestment requirements and changes in corporate governance. The merger of six major local banks into the current three (DBS, OCBC and UOB) significantly increased their deposit bases, which were deemed vital to promoting extra-territorial competitiveness. The enlarged banks were also

instrumental to the building up of IFC capacities for Singapore, with banking and finance targeted as a key pillar of growth (see Figure 1).

supposed to expand their non-deposit taking businesses, transforming their business models from traditional banking services to more complex financial institutions offering an extensive and sophisticated array of financial products and services to an expanded customer base in regional and global markets (Cook, 2008). As explained by the MAS (1998), “Size matters in international banking [… The local banks] need to grow large enough to enjoy the economics of scale, and to have the reach and resilience to go regional, and eventually make a mark in global markets. This is why MAS has encouraged local banks to consider mergers”. In 2000, local banks were required to divest their non-financial businesses and unwind their cross-shareholdings within a three-year period. This not only complied with Basel requirements but also allowed local banks to strengthen their position following the Asian financial crisis in a manner that was aligned with state development strategies (Brown, 2006). The divestment policy included four elements of separation, related to the ownership, cross-shareholding, management, and name sharing of the firm (Table 1).

*** Table 1 around here ***

Other than business structures, corporate governance of banks also came under scrutiny. In a speech to the Association of Banks in Singapore, then deputy prime minister Lee Hsien Loong (21 June 2000) contrasted the “spry competitive banks” of the US with the German, Japanese, and Korean models tied into various cross-shareholding structures, which have seemingly encumbered them in the context of “an intensely competitive and dynamic […] globalized industry”. This point was clearly directed at the three family-founded banks (OCBC, Overseas Union Bank (OUB) and UOB) for their continued family ownership and in some cases family management (although they were all publicly listed companies on the Singapore Exchange). In 2001, OUB rebuffed a hostile takeover from DBS due to concerns that its founding family would unlikely remain in control in such a merger. When OUB successfully merged with UOB (another family-founded bank) under more favorable terms, DBS issued a statement saying that UOB's offer should be "applauded for its daring […] especially since the combination is an attempt to keep family control intact without regard for shareholder value" (Low, 2001). There was clear pressure for banks to become corporations deemed fit for global competition, which in this case meant a departure from family control and management (more on this issue of ownership and management in the next section).

Changes in organizational structure alone, though driven by financialized conceptions of shareholder value and global competition, were not the only significant features to mark the transition from banks to financial companies. Local banks were presented with the challenge of becoming 'world class' banks capable of competing with the likes of JP Morgan or Citigroup, which meant changing not only their organizational structure but reshaping profit streams towards greater capital markets participation and product innovation. Over the past decade both DBS and OCBC have significantly expanded their investment banking and/or asset management businesses through the development and acquisition of new subsidiaries (further detailed in the next section). These enabled the expansion of trading in a variety of more complex financial instruments such as derivatives, which have become an increasingly important part of bank business and profit streams clocking impressive growth over the past decade (see Figure 2). The increasing importance of financial instruments and capital market activities to these firms' operation and accumulation strategies is a classic demonstration of financialization at work (see Krippner, 2005). In this case, this process has been instigated by a state that has an eye on mobilizing banking firms as part of a broader development strategy for political-economic security. No longer was state policy about *protecting* local banks such that they could service the industrial and retail needs of the endogenous Singapore economy; now it was about advancing their abilities to become *growth engines* themselves. While the regulatory mechanism of banking liberalization has been applied to all banks in shaping their responses and behavior towards financialization, other modes of influence such as ownership, governing financial elites and 'demonstration effect' of lead firms are also utilized to bring about state-led financialization in flexible ways. In the next two sections, we use the cases of DBS and OCBC to demonstrate how firm-state relations have operated through different mechanisms (according to different institutional, economic and cultural embeddedness of these firms) to shape the financialization of these banks.

*** Figure 2 around here ***

3.1 DBS: Rolling out financialization

DBS began as the Development Bank of Singapore in 1968 to take over the industrial financing role from the EDB[5], providing finance to Singapore manufacturing and processing industries and infrastructural projects. It effectively became banker to the Singapore Government, which had 46.8 percent share in the bank (DBS Annual Report, 1968: 5). By the 1980s DBS moved into commercial banking and was particularly significant as a loan provider in the property market. In 1983, it was rebranded from a government-linked corporation to a commercial enterprise (*Business Times*, 5 April 1990). Despite this apparent distancing from its government roots, its relationship with the state remains robust through ownership, regulatory influence, governing role of financial elites and 'demonstration effect' as a lead firm for other banks.

[5] The EDB then concentrated on promoting inward FDI and later facilitating Singaporean companies' investment abroad.

Although DBS is a publicly listed company, the Singapore Government remains its biggest shareholder, holding almost 30% of shares via government investment companies (Table 2). This enabled DBS to effectively function as a key agent of state-led financialisation as it rolled out plans for IFC development and banking reforms starting in the late-1990s. When the state pushed for the consolidation of local banks to develop larger domestic banking institutions, it started the process by selling POSB to DBS for S$1.6 billion (US$1.2 billion), making it the largest bank in Singapore. There were complaints that DBS "got POSB on a silver platter" from the government (Purushothaman, 1998) as other potential buyers were not able to bid for POSB. The takeover transformed DBS from having the third smallest number of deposit customers to becoming the largest, which enabled it to acquire critical mass for overseas expansion. This was in line with the broader regionalization vision of the state to build an 'external wing' to Singapore's economy (Yeung, 2000; Tan, 2005), as the enlarged DBS expanded its operations in Thailand, Indonesia and later into Hong Kong. In 2003, the Development Bank of Singapore adopted the 'DBS' moniker to reflect its changing role as a market-driven and regionally-oriented financial institution (DBS Annual report 2003). The DBS Group now includes DBS Vickers Securities, DBS Asia Capital (asset management) and Islamic Bank of Asia as wholly-owned subsidiaries, and has substantive operations in Greater China, Indonesia and India. Its regional presence is strongly asserted in its corporate branding, with its website, advertisements, annual reports and publicity materials proclaiming that "DBS is a leading financial services group in Asia" (more than just a bank) and the "Safest Bank in Asia".

*** Table 2 around here ***

Other than ownership, the state-firm relationship with DBS has also proved highly significant in regulatory changes. The relationship between DBS and MAS has been a reciprocating one in which policies or business practices devised in either are tested within DBS before being rolled out across the industry. DBS thus acts as a vital agent of state initiatives even through it engages with the ‘market’ on competitive terms. In the late 1990s, problems with its bungled joint venture in Thailand and losses from the 1997 Asian financial crisis induced the bank to hire foreign leaders for business reorganization (Daniel, 2001). In 1999, it divested its non-financial assets and reorganized them into a financial holding company for better risk management and greater business flexibility, thus turning DBS into a “financial supermarket rather than a messy conglomerate” (Raj, 1999). These were the same strategies that MAS would later adopt as best practice in its liberalization scheme and divestment requirements as they enabled Singapore banks to refocus on core financial services and develop the necessary capacity for overseas expansion. During the divestment period, DBS was the first Singapore bank to take advantage of the securitization process to sell off its assets to other financial units of the firm, a course of action made possible by the flexibility of organization into the financial holding company. Since its reorganization, profits from financial investments nearly doubled between 1998 and 2014 and derivatives trade increased dramatically from approximately S$31 million to S$1.9 trillion (DBS Annual Report, 1998; 2014). This business reorientation towards financial investments was deemed necessary for the grooming of an IFC with greater market depth and sophistication and was also taken up as policy by the MAS in the 1999-2004 reforms.

State-led financialisation is also enabled through the maintenance of a financial governing elite, in which connections between the state and banks are continually strengthened by a revolving door between the management or board of directors of banks and political or bureaucratic positions (Hamilton-Hart, 2002; Woo, 2015). During the period of banking reforms, a key policy shift was towards a more consultative 'risk-based' model of regulation (in line with Basel II requirements) rather than the previous 'one size fits all' supervisory approach (Ong, 2004). This enabled individual firms to exercise greater freedom in expanding into new markets and sectors but also required them to put in place internal risk control measures to comply with broader regulatory guidelines (such as minimum capital ratio, reporting requirements etc.). A more 'consultative' and 'business friendly' style of supervision was institutionalized through the circulation of consultation papers, which enabled the MAS and finance actors to discuss proposed regulatory changes, raise concerns and fine-tune policies before final implementation. These consultative practices are integral to sustaining state-firm relations as part of "consultative authoritarianism" in Singapore (Rodan, 2012), in which professional and economic elites are co-opted into state institutions to enable the smooth operationalization of economic policies and developmental programs (Jayasuriya and Rodan, 2007; Woo, 2015). Other than through institutionalized channels such as consultation papers, key individuals frequently move between private and public organizations and are socialized and incorporated into the governing elite through appointment to senior positions in statutory authorities such as the MAS, government-linked companies like Temasek Holdings, GIC[6] and Keppel Corporation and government ministries. By maintaining this governing elite across private financial sectors and public organizations, the state is able to influence business strategies and firm behavior by extending its values and policy outlook into the management and governance of banks. Although this governing elite is discernible across

[6] GIC was formerly known as Government of Singapore Investment Corporation. GIC and Temasek Holdings are owned by the Singapore government and amongst the top 10 sovereign wealth funds in the world (based on assets). The rise of such sovereign wealth funds particularly in East Asia and the Gulf states have raised critical discussion regarding the complex entanglement of state sovereignty, development and global finance (Clark et al., 2013). It is also one area in which our directive to better analyze the state-led (though not state bounded) processes of financialization might have further resonance.

the banks in Singapore (Hamilton-Hart, 2000), it is most obvious in DBS due to its history and government ownership. Former cabinet minister S. Dhanabalan served as Chairman of DBS, as well as Temasek Holdings and Singapore Airlines, after his retirement from politics (Singapore Infopedia, 2013). On the current board of directors, two of its members (including its Chairman) are also on the board of government-linked corporations such as GIC, Keppel Corp and JTC Corp, and another was a former long-serving cabinet minister. With this comingling of politics and finance, it becomes difficult to distinguish what is a corporate decision and what is a state initiative, and DBS's experience through the period of banking reforms demonstrates the co-constituted nature of capitalist institutions that is often irreducible to either the market or the state. Instead, we witness the entanglement of both state and commercial interests in the pursuit of business expansion and financialized growth.

The state-firm nexus as embodied by DBS has proved problematic at times. During the period of bank mergers, DBS had to counter rumors that it was only interested in pursuing government policy of consolidation rather than operating on sound business judgment. The bank had to defend itself as a market-based organization, protesting that "we are not being told [by the government] to do this [merger with POSB]. This is not a national service"[7] (*The Straits Times*, 2001). However, it clearly could not disentangle itself from state developmental objectives. When DBS acquired a bank in Hong Kong in 2001, the bank took a large hit to its shareholder value due to the premium paid for the takeover. However, industry analysts remained optimistic due to the bank's inextricable links with the state:

> "I am not sure this deal is necessarily bad for DBS. After all, this is what DBS needs to do to spread its wings and *plant the national flag* outside

[7] 'National service' refers to the compulsory military conscription of male Singapore citizens for two years, usually at the age of 18 years.

> Singapore. Hong Kong is the gateway to China, the terra firma for Singapore Inc." (Quoted in Tan, 2001; emphasis added).

The geography of DBS' business investments were structured in the hope that the expansion of the bank would strengthen the national economy as well. The expansion by DBS into Hong Kong was not only symbolic of the state's extra-territorial economic policies but also reinforces the financialization of the bank by integrating it into increasingly important networks of emergent financial centers and capital markets in Greater China (Lai, 2012) with the necessary depth to sustain growth across an array of financial activities. DBS subsequently increased its business investment in Hong Kong, from which it now obtains nearly 20 percent of its profits (DBS Annual Report, 2014).

The close state-firm relationship that DBS enjoys makes it a lead firm in many aspects of state-led financialisation, magnifying the 'demonstration effect' that it has on the domestic banking industry as the biggest (and arguably, most favored) Singaporean bank in signaling new growth markets and trajectories (Ong, 2000). It was the first to benefit from the government's vision of larger consolidated domestic banks and was granted the purchase of POSB in a no-bidding transaction. By having its business strategies and corporate reorganization adopted as best policy in subsequent banking reforms, it had significant first mover advantage compared to other banks who had to catch up with regulatory compliance. The business transformation of DBS dramatically altered the landscape of retail banking in Singapore and pressured the other banks to seek out mergers themselves. When DBS subsequently heeded government rhetoric to develop an 'external wing' to Singapore's economy by venturing overseas, its foray into regional markets, particularly in Hong Kong and China, was quickly followed by the other banks (Phelps and Wu, 2009; Yeung, 2000). While DBS is a commercial enterprise, its inextricable ties to the state also enable DBS to enjoy a certain level of autonomy from the 'market'. In doing so, it ushered in new financial logics and practices in ways that fulfilled financialized and developmental visions of the state.

3.2 OCBC: A rocky relationship

Unlike the government roots of DBS, OCBC emerged out of a coalition of Chinese family banking firms in 1932 and exemplified the power of *guanxi*-capitalism embedded into strong values for kinship and ethnic ties (Olds and Yeung, 1999). However, it also displayed financialized firm behavior in the reorganization and expansion of its business similar to DBS following the 1999-2004 banking reforms (see Figure 2). The mechanisms through which the state was able to shape the transformation of OCBC from banking firm into financial services corporation operated mostly through regulatory pressure, with some influence from financial governing elite.

In terms of ownership, OCBC is a publicly listed firm with no discernible government stake. The founding family still owns a sizable portion of the bank although actual portion could not be ascertained as ownership is through various holding companies (Table 3). Both of founder Lee Kong Chian's sons have served as Chairman of the bank and two family members are currently on the board of directors. Regulatory mechanism became the main method through which the state was able to shape the financialization of the bank. Unlike DBS, which took it upon itself to create a new financial holding company to reorganize its assets and risk exposure before regulatory changes, OCBC found the requirement to disinvest its non-financial assets problematic as this was a fundamental component of its business strategy initiated in 1942 under its managing director and chairman Tan Chin Tuan.

Under Tan, OCBC's business strategy was based on a *keiretsu*-type corporate structure centered on a family controlled bank. This diversification and "synergies of scale" enabled firms under the OCBC umbrella to gain cost efficiencies and also provide capital at favorable rates (Loh et al., 2000: 192). While the developmental role of state-backed banks such as DBS and POSB was more obvious (Lai, 2015), smaller family banks like OCBC were also vital to the early industrial development of Singapore with their focus on local small and medium enterprises (SME). OCBC's strategy led to an alliance of corporations built upon a tight network of interlocking directorships and shareholdings between the firms, with the bank at the center of the coordinating web (Figure 3). Many of these firms would become household names in Singapore, including Robinsons department store, Raffles Hotel, and F&N Beverages. OCBC became one of the largest and most profitable banking groups in Singapore with strong positions in Malaysia and Greater China. Healthy cash flow enabled OCBC to acquire the government-linked Keppel TatLee Bank in 2001. The acquisition was meant to reestablish OCBC's position as the largest bank before the DBS-POSB merger, but this was circumvented by the UOB-OUB merger (Singapore Infopedia 2011a). This left OCBC as the smallest bank in Singapore with also the largest amount of non-core assets to divest by the 2004 deadline (Low, 2002) (See Table 4). The bank tried to brush off concerns with its CEO arguing that "[its size] certainly does not convey the value and strength of our franchise and our competitive capabilities" (OCBC Annual Report, 2001: 9). However, this proved unconvincing when set against the discourse of bigger banks as stronger banks, which was pervasive during the period of industrial restructuring; bigger was seen as better in a new liberalized banking environment to withstand competitive pressure and for geographical expansion into regional markets. There were even rumors over a possible DBS-OCBC merger in the following years (OCBC Information Resource Unit, 2003). The bank deemed 'Solid as a Rock' (Loh et al., 2000) would lose some of the very institutional foundations that it built over 80 years in order to comply with new regulatory requirements.

*** Figure 3 around here ***

*** Table 4 around here ***

When MAS announced in 2000 that banks would have to relinquish their stakes in non-core business larger than 10 percent of firm's assets, it signaled the end of the crossholding organizational structure that OCBC's business was built upon. By highlighting the "maze of bank cross-shareholdings" in which not even the bank knew what it owned in relation to what the family owned (Ong, 2002), MAS was sending an explicit message to family-founded banks like OCBC that those practices had to change in a new competitive environment of regional expansion (for Singapore's banks) and global aspirations (for Singapore's IFC development) (Lee, 2000; Low, 2000). OCBC's profitability prior to the reorganization was characterized by two main strategies: firstly, as a principal equity investor in local Singaporean firms (the largest of which were non-financial), and secondly, in consumer and commercial deposits and loan intermediation, particularly characteristic of its substantial SME loan business in Singapore, Malaysia, and Greater China. As part of its reorganization, the bank hired a new Chief Executive Officer (CEO), David Conner, who previously helmed Citibank India and Citibank Japan. Conner's background in one of the 'world class' competitive US banks often highlighted in speeches of Singaporean state officials and his experience in Asia no doubt played a significant role in his appointment. Under Conner's leadership from 2002 to 2012, the bank's strategies turned towards three areas: firstly, expansion of wealth and asset management business, secondly, bancassurance, and thirdly, tighter integration of Malaysian and Singaporean banking markets (OCBC Annual Report, 2002: 10; Connor, 2003; 2006). The first two strategies, in particular, enabled the bank to connect existing bread-and-butter retail banking channels with fee-based income from fast growing financial channels of the bank (e.g. asset management and private banking). The OCBC financial holding company now includes one of Southeast Asia's largest asset managers (Lion Global Investors) and insurers (Great Eastern Holdings), both of which have been thoroughly integrated into its well-established retail networks in Singapore, Malaysia, Indonesia and Greater China. In 2010, the Bank of Singapore was launched as a subsidiary of OCBC following the purchase of ING Asia Private Bank. This foray into private banking further anchors its business orientation in the region's growing high net worth market, and highlights the increasing role of financial markets and securitization in OCBC's business, in areas such as mortgage financing, commercial and investment banking, stockbroking, insurance and investment management (OCBC website: http://www.ocbc.com.sg/group/who-we-are/group-business-private-banking.html).

While the maintenance of a financial governing elite is not as obvious for OCBC compared to DBS, due to different origins and nature of state-firm relations, the socialization and circulation of key individuals between senior positions of the bank and statutory organizations (or government-linked companies) is still discernible. Singapore's current President Tony Tan (also nephew of long-standing chairman Tan Chin Tuan) spent his early career at OCBC in managerial positions. Since his foray into politics, he spent the 1980s to 2000s circulating between Cabinet and Ministerial positions, positions as chairman and CEO of OCBC, and executive director and deputy chairman of GIC (Singapore Infopedia, 2011b). Currently, OCBC's board of directors include 4 members with previous executive or board positions on government-linked companies, and one former deputy managing director of MAS. The enmeshment of key individuals in managerial, executive and board positions within a web of 'policy relations' amongst state and non-state financial actors (Woo, 2015) would have worked in tandem with regulatory mechanisms to bring about the financialization of OCBC's business operations.

Over the course of banking reforms and government-sanctioned strategies for regional expansion, DBS and OCBC have transformed themselves from banks to financial services corporations through distinctive business responses. OCBC's strategy has been a downward or retail-oriented financialization, in which traditional retail banking is connected with diversified financial products (e.g. unit trusts, insurance products) tied into wider financial markets and private wealth management becomes a new priority; this currently accounts for 35 percent of current revenue growth (OCBC Annual Report, 2014). In comparison, DBS has engaged in an upward or institution-oriented financialization focusing on institutional clients with profits accruing from the expansion of investment banking and trading based income which grew 27 percent from 2013 and makes up more than 40 percent of 2014 income (DBS Annual Report, 2014). In comparison, annual growth in loan-based income was mostly in the single digits for both firms. Table 5 provides a summary of key institutional features of the two banks, highlighting some of the different mechanisms through which the state has shaped their financialisation strategies and business outcomes over the period of banking reforms.

*** Table 5 around here ***

4. Conclusion

Within the financialization literature, the state as a key agent of financialization has been somewhat taken for granted and relegated to the background instead of being systematically investigated. In this paper, we have focused on the state and state-firm relations in order to explicate financialization processes and outcomes in terms of corporate transformation and shifts in economic development strategies. By scrutinizing the role of the state through its directed financialization of local banking firms, the analysis deepens our understanding of financialized modes of production, state-firm relations and capitalist dynamics. Using Singapore as analytical foil, we demonstrate that the role of the state is essential for understanding the dynamics of economic change. Rather than just providing a facilitating or intermediary function (see Hall, 2013), finance has been mobilized within the wider state-capitalist structure as a key developmental strategy. The state banked on financial services as one of the key industries to secure Singapore's position in the regional and global economy. The transformation of local banks into more complex financial institutions reveals the substantive role of the state in the financialization of firms, with the objective of having strong local banks with sufficient clout and a wider range of financial services in order to ensure national economic growth and regional competitiveness. This commitment towards developing banking firms as financial services corporations has remained consistent despite the 2008 global financial crisis. While the financial crisis had limited systemic impact on Singapore's banking sector, the unraveling of Lehman Minibonds (related to the bankruptcy of Lehman Brothers) resulted in financial losses for retail investors at an unprecedented scale and scandals for banks like DBS that were accused of mis-selling and other business misdemeanors in their financialization strategy towards wealth management products and services (Lai, 2013). However, the overall regulatory position continued to prioritize IFC development and the grooming of financial markets that would support that aspiration, as more restrictive regulation of such growth sectors "will be damaging to the reputation of Singapore as a financial center" (MAS 2012: 135).

While there is some resonance between state-led financialization as discussed in this paper and the kind of urban boosterism often associated with IFC growth strategies, we would argue that the financialization of Singaporean banking firms is more than just industrial boosterism by an urban elite. Since the 1980s and 1990s, the promotion of financial services and a wider effort to cement Singapore's position as a global city has been accompanied by significant infrastructural and mega-urban projects (Huang, 2013). However, our focus on state-firm relations and the various mechanisms for state-led corporate change departs from more urban-centric analyses of financial center development. The shift from 'bank-based finance' to 'market-based banking' (Hardie et al. 2013) has wider implications for understanding the role of banks in the contemporary capitalist system beyond selected financial centers to consider how political economic processes and governance structures are being reworked by financial entities and practices (Christophers, 2013). In this sense, the state-led financialisation of Singaporean banks serves as useful provocation to reconsider the role of the state in financialization, to analyze financialization as more than the expansion of financial logics and practices across economic and social life but also possibly as new state rationalities (see for e.g. Aalbers et al. 2011; Bassens et al. 2013; Hendrikse and Sidaway, 2014).

In this paper, we have suggested a number of ways through which states could shape the financialization of banking firms, such as through ownership, regulatory regimes, financial governing elites and 'demonstration effect' of leading firms. These mechanisms are suggestive rather than exhaustive, and could be utilized by state actors in different ways or combinations for desired outcomes. Despite what might be seen as a convergence in the governance and organizational structures of DBS and OCBC due to compliance with regulatory changes, their strikingly different relationships with the state have resulted in the use of different mechanisms through which the state is able to shape their pathways to financialization. Although the flow of senior personnel between OCBC and the public sector is noteworthy (Hamilton-Hart, 2000), the relationship between the state and OCBC during the 1999-2004 banking reforms has been more arms' length as compared to its more symbiotic relationship with DBS. Through banking reforms, the state pushed local banks (even when they resisted, as was the case on occasion) to re-orient themselves into the kind of global financial services corporations deemed desirable for regional competitiveness and IFC status. This process produced firms that demonstrated both state-sponsored and market-oriented features in variegated ways. Unpacking the state-firm nexus in financialization is therefore vital for understanding financialized capitalist development not only as a market-led phenomenon but also infused with state-directed political-economic objectives.

Given the limited amount of financialization research outside of Anglo-American economies (see, for example, Gabor, 2010; Rethel, 2010; Ashman et al., 2011), this study on the state and financialization of banks in Singapore contributes to a fuller picture of financialization as it unfolds across territories. More than 'financializing space', our analysis has highlighted 'spacing financialization' (French et al., 2011) in terms of how actors, institutions and events intersect across international, regional and firm levels such that financialization has been enacted via different pathways and also mobilized for strategic purposes; these have repercussions on how we analyze financialization processes, actors and outcomes (Pike and Pollard, 2010). While beyond the scope of this paper, our analysis also suggests that a deeper engagement with the multi-form and multi-scalar processes of state-led financialization could help us better engage with the increasingly extra-territorial powers of state-turn-financial actors, such as sovereign wealth funds, state-pension funds and financial regulators. Although we have focused on state-firm relations in this paper, there is considerable scope for deeper engagement with other actors, networks and territories of finance and financialization (Coe et al., 2014). As financial logics, institutions and actors have become inseparable from ever more segments of economy and society (Hall, 2013), such an approach could yield valuable insights on capitalist change, state rationalities and regional development.

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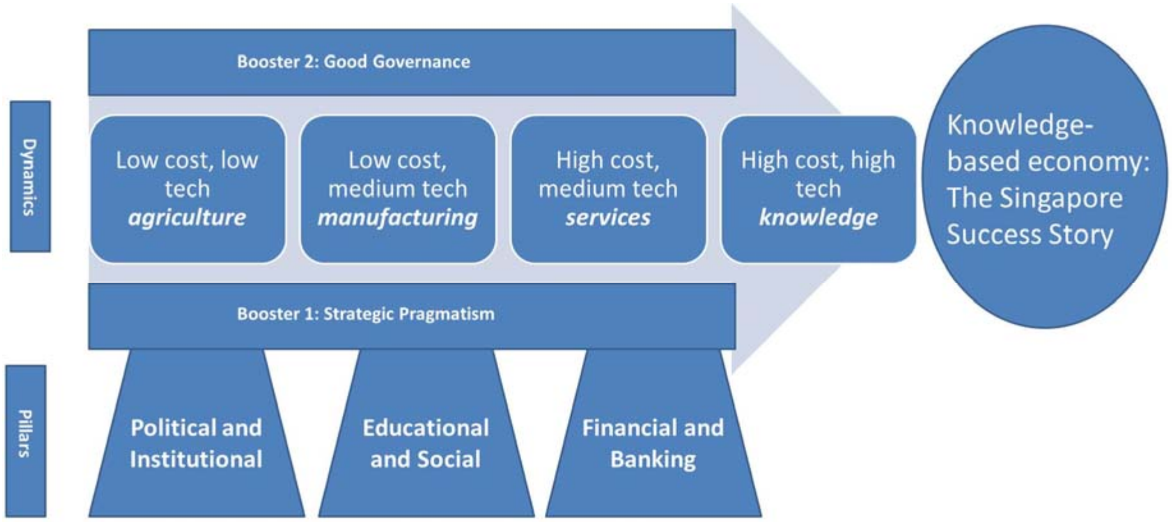
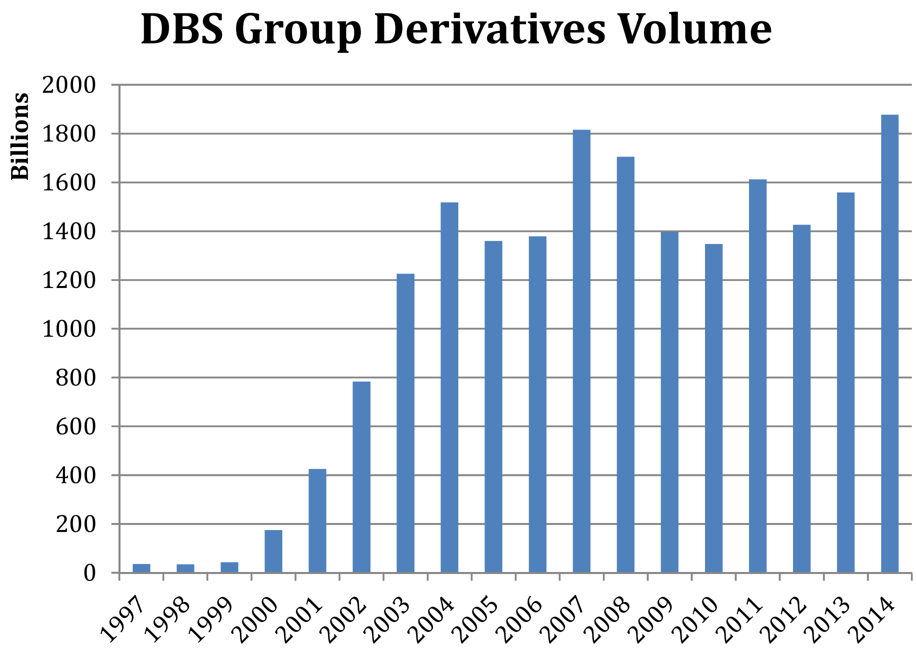


Figure 1. Framework for "The Singapore Success Story" (Source: Ngiam, 2011: xxx)



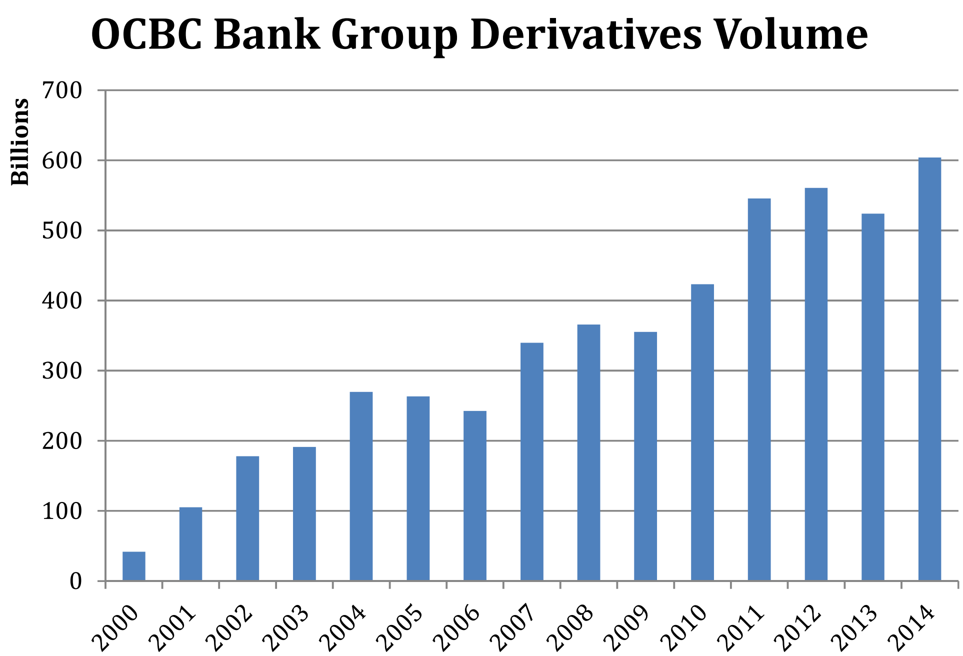


Figure 2. Dramatic growth in derivatives volume of DBS and OCBC banks. (Sources: DBS Annual Reports for 1997-2014; OCBC Annual Reports for 2002-2014, OCBC Group Financial Results for 2001)

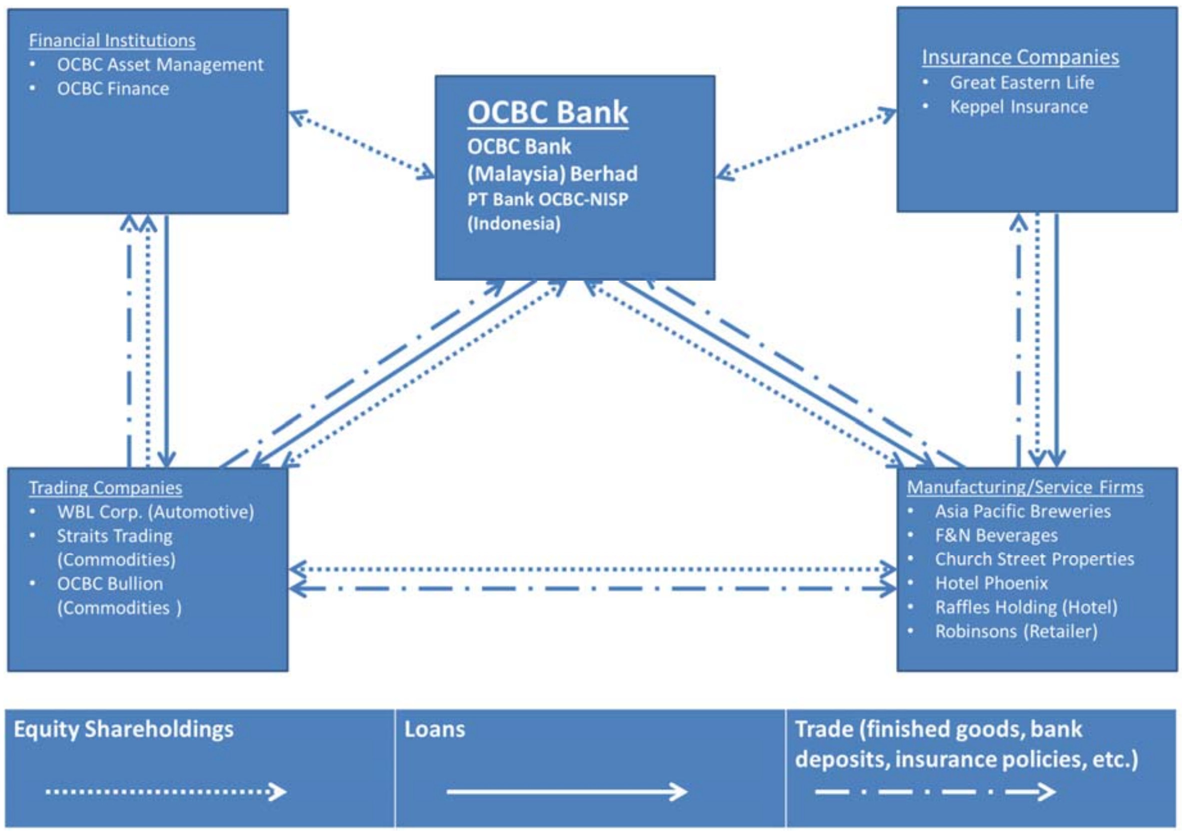


Figure 3. Structure of OCBC's business structure before the 2004 deadline for sale of non-core assets. (Sources: Loh et al., 2000: 191; OCBC Annual Report, 2002: 113-119; Low, 2002)

Table 1. Four elements of the MAS divestment policy

	Regulatory Target	**Requirement**
1	Corporate entity/parent	• All financial activities must be held under a bank or financial holding company to be regulated by MAS.
2	Cross-shareholding	• Shareholders in financial arm cannot be shareholders in non-financial arms, with a separate listing for the bank or financial holding company on the stock exchange. • Mutual shareholding between firms in the financial arm or between non financial firms is not permitted. • Financial firms should not own shares in non-financial firms related to principal shareholder.
3	Management	• Management of non-financial firms and financial firms must be distinct.
4	Name sharing	• Financial firms and non-financial firms must not share the same name, for this could impinge on the reputation of the banks.
Source: Lee, 21 June 2000		

Table 2 Top 10 shareholders of DBS as of February 2015

1	Citibank Nominees (19.01%)
2	Maju Holdings (17.30%)*
3	DBS Nominees (17.28%)
4	Temasek Holdings (11.46%)*
5	DBSN Services (8.47%)
6	HSBC Nominees (6.45%)
7	UOB Nominees (3.67%)
8	Raffles Nominees (1.88%)
9	BNP Paribas Securities (1.52%)
10	Lee Pineapple Company (0.69%)

Source: DBS Annual Report, 2014

** Temasek Holdings is an investment company owned by the Government of Singapore while Maju Holdings is a wholly-owned subsidiary of Temasek.*

Table 3 Top 10 shareholders of OCBC as of March 2015

1	Citibank Nominees (14.65%)
2	Selat (Pte) Limited (10.91%)
3	DBS Nominees (10.64%)
4	Lee Foundation (4.29%)
5	HSBC Nominees (4.16%)
6	DBSN Services (4.06%)
7	Singapore Investments (3.71%)
8	Lee Rubber Company (3.07%)
9	BNP Paribas Securities (3.00%)
10	UOB Nominees (2.16%)
Source: OCBC Annual Report, 2014	

Table 4 Non-core assets to be sold by OCBC

OCBC Non-Core Asset	Industry	Share Percentage-Held by Bank	Market Value (S$ million)
Robinsons and Company	Department Store/Retailer	16.84	88.5
Straits Trading	Commodity Trading	13.64	64.5
WBL Corp.	Automotive/Trader	8.85	36.7
F&N	Beverages	8.75	133.5
Raffles Holding	Hospitality	4.56	48.8
Asia Pacific Breweries	Beverages	3.47	46.6
Great Eastern Life*	Insurance	29	1100
Real Estate	Real Estate		1200

*Or Great Eastern Life could sell its 6.2 percent share in OCBC to avoid cross-shareholding.

Note: The MAS rules only required that banks divest of firms in which they have more than 10 percent share. However, this was the public list provided by OCBC indicative of its divestment plan.

Source: Tan, 19 March 2002

Table 5 Comparing institutional features of DBS and OCBC after banking reforms

Institutional Features	DBS	OCBC
Ownership	• The state as biggest shareholder through state-owned investment companies	• Founding Lee family as biggest shareholder
Board/Management Representation	• Three board members currently or formerly held positions in government or government-linked corporations • CFO currently on the boards of government statutory organizations • Several members of the board and management committee serve as advisors to government organizations	• Four of the eleven board members have served in government-linked corporations • CFO previously worked at GIC for 13 years • Three of the nine member of the management committee are linked to former government-linked corporations • Family has two members on board of directors
Relationship to MAS	• Leadership cycles through DBS and MAS • MAS policy derived from corporate governance experience of DBS • Greater power as an agent of the "consultation" process, often with first-mover advantage	• More arms-length transactions, although with some on-going networks through financial governing elites • Firm is largely responsive to state rhetoric and regulatory pressures • Seen as laggard but successfully reorganized and caught up
Business Group Activities	Banking services, private banking, institutional banking, treasury and markets services, capital markets, asset management, Islamic banking, securities	Banking services, private banking, insurance, asset management, trade finance, stockbroking, Islamic banking
Financial Derivative Volume in 2002 and 2014	2002: 778 billion 2014: 1.877 trillion	2002: 162 billion 2014: 604 billion
Sources: DBS Annual Report 2002, 2012; OCBC Annual Report 2002, 2012; DBS website (http://www.dbs.com/default.page); OCBC website (http://www.ocbc.com.sg/group/index.html)		