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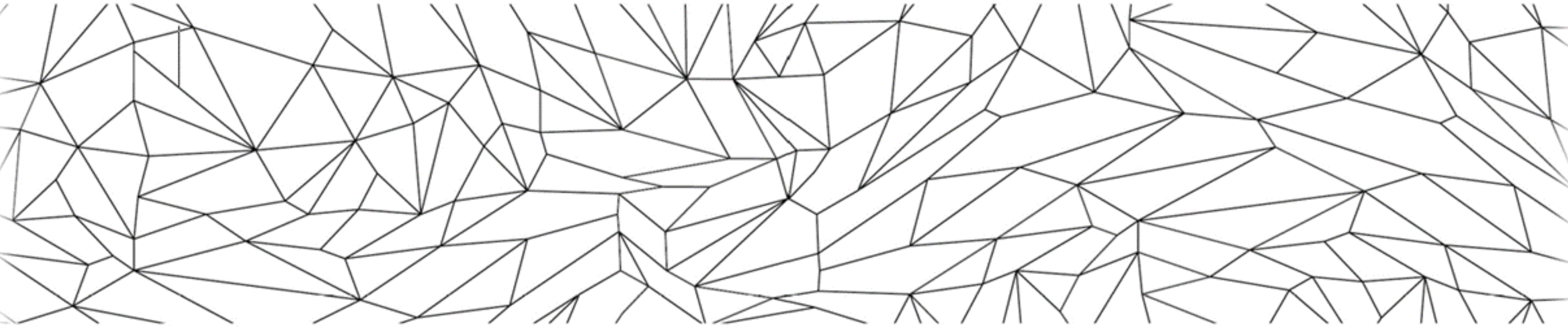

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Variegated Subordinate Financialisation and Uneven Development: Perspectives from Nigeria and South Africa

Sara Riccio[1]

Abstract

By drawing from literature on subordinate and dependent financialisation, this paper will analyse ongoing financialisation processes in Nigeria and South Africa. Subordinate financialisation is an intrinsically critical concept referring to a systemic transformation that several developing countries have been experiencing since the 1990s. This socioeconomic process has affected banks, households and non-financial enterprises' operations and entailed weak investment performance, unequal and unsustainable household indebtedness, as well as enhanced hierarchical structures between and within countries. Marxist political economy and regulationist research define it as subordinate and dependent in the attempt to underline its derivative character. As will be explored, financialisation has been variegated and shaped by countries' subaltern positions in global production chains and international financial networks. The scope of this dissertation is to shed light on the multidimensionality of this structural transformation and the exacerbated asymmetries that result from it. Indeed, the comparative analysis will examine Nigeria's position in global value chains and passive extraversion, while focusing on households' indebtedness and inequality for the case of South Africa. The analysis is therefore intentionally confined to diverse nuances of subordinate financialisation in the countries, which are determined by their colonial economic legacy and modes of integration in the global economy.

Keywords: variegated subordinate financialisation; dependent financialisation; uneven household indebtedness; passive extraversion.

JEL classification: E58, F02, F23, F32, F36, F38, F54, G15, G51 P16.

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1. Introduction

Since the 1990s, various developing countries worldwide have been undergoing a systemic socioeconomic transformation that has expanded banks, households and businesses' involvement in domestic and international financial systems. Their experiences of financialisation have been variegated and determined by country-specific historical, institutional, and political backgrounds. However, some shared paths can be identified. These highlight how the financialisation process in developing countries is shaped by their subaltern positions in global production chains and international financial networks. These aspects have been investigated and underscored by the subordinate financialisation literature, whose conceptual framework draws from Marxist political economy, with some post-Keynesian influences. Another theoretical strand highlighting the derivative character of financialisation in peripheral economies is the regulationist analysis on dependent financialisation. By drawing from this academic literature' conceptualisation of the phenomena, this paper will analyse the ongoing financialisation processes in the richest economies of Sub-Saharan Africa, namely the Nigerian peripheral economy and the South African semi-peripheral economy. The comparative analysis will highlight the various nuances of subordinate financialisation, which are determined by countries' colonial economic legacy and modes of integration in the global economy.

Reserving a more in-depth analysis of the concepts mentioned here in the following theoretical section, it is worth noting that this essay will not explore in detail every aspect of Nigeria and South Africa's financialisation processes, as this would require a longer academic paper. However, the scope of this dissertation is to bring to light the multidimensionality of this structural transformation and the exacerbated asymmetries that result from it. As will be explained, subordinate financialisation is an intrinsically critical concept that entails weak investment performance, unequal and unsustainable households indebtedness, as well as enhanced hierarchical structures between and within countries. These aspects will be outlined in section 2 which analyzes the existing literature on subordinated financialization in developing countries. Subsequently, sections 3 and 4 will briefly examine the historical contexts of South Africa and Nigeria focusing on the period of financial liberalisation and deregulation that allowed countries to integrate into the global financial system. These sections will be fundamental for interpreting the different forms that subordinate financialization has taken in the following decades. The comparative analysis in sections 5 and 6 will initially investigate the international dimensions of the phenomenon, including international capital flows, the accumulation of foreign exchange reserves, and balance of payments analysis. Furthermore, these sections will address the internal transformations that financialization has brought about, especially in the behaviour of households, banks and non-financial enterprises, alongside the effects on countries' overall socioeconomic development. The comparative analysis will focus on the position in global production chains and mode of extraversion for the case of Nigeria while analysing households' interaction with finance, as well as interest rate and currency dynamics for the case of South Africa. Therefore, the analysis is intentionally confined to diverse forms of subordinate financialisation in the countries and sheds light on the intricacy of the phenomenon, as well as its interaction with social and political dynamics.

2. Theoretical foundations on subordinate and dependent financialisation

2.1 Financialisation: theoretical approaches and conceptual distinctions

A significant body of literature on financialisation has developed from post-Keynesian, Marxist, and regulationist perspectives since the 1990s (Becker et al., 2010). However, a clear and universal definition of the concept of financialisation is still missing. Post-Keynesian economics refers to the rising importance of financial motives, financial actors, and financial institutions in the economy, which arises at the expense of well-performing production (Epstein, 2005). Specifically, the post-Keynesian analysis points to the expanding role of the rentier, whose operations are thought to depress productive industrial investment and generally the real sector of the economy (Stockhammer, 2004). On the other hand, classical Marxist political economy conceptualises the financial system as a compound set of institutions that assists accumulation and the mobility of capital (Lapavitsas, 2011). According to this approach, financialisation analysis should examine the interaction between financial and real sectors, namely, investigate the means through which finance and production mutually influence one another. This relationship relates to the operations of banks, enterprises, and workers and varies depending on historical, political, and institutional contexts. In this sense, the post-Keynesian perspective remarks on the role of a particular capitalist class, while a Marxist lens highlights the financial system's intricacy (Lapavitsas, 2011). Along similar lines, the regulationist approach analyses the historically and spatially specific links between strategies of accumulation and structural forms of regulation (Becker et al., 2010). The notion of regulation outstrips its technical meaning of legal norms and state intervention, encompassing social norms. These norms are considered to sustain particular forms of accumulation and social reproduction, as well as be shaped and pre-formed by civil society. The regulationist approach distinguishes between productive and financialised accumulation, with the former based on investment towards the productive sphere of the economy, while the latter represents investment channelled into financial and banking markets. Financialised accumulation could be supported either by fictitious capital or interest-bearing capital. Fictitious capital accumulation is based on securities and allows the expansion of financial assets, while interest-bearing accumulation is underpinned by high interest differentials (Becker et al., 2010).

Financialisation in developing countries tends to be confused with financial liberalisation or financial globalisation. These terms have been used for advocating removal of financial regulations and freeing of international capital flows since the collapse of the Bretton Woods system in the early 1970s (Lapavitsas and Soydan, 2020). With the advancing of the crisis in the Eastern bloc, the development policies that prevailed in the 1950s and 1960s became less widespread. These were galvanised by the success of the Soviet Union during the interwar period and included capital flows' controls, a regulated labour market, government ownership over certain industries, and import substitution (Fine et al., 2003). Since the 1970s, free-market economics has become the foundation for development theory and has been actively advocated by multilateral organisations as part of the Washington Consensus. Developing countries have indeed adopted neoliberal policies advocated by the World Bank and International Monetary Fund (IMF), which were providing loans conditional to the embracement of policies aligned with the consensus ideology (Fine et al., 2003). These included deregulation, privatisation, fiscal and monetary austerity, free interest rate and

exchange rate, and foreign trade's liberalisation (Fine et al., 2003). Thereafter, developing economies have been experiencing a profound transformation that affects economic actors' behaviour and operations. Marxist political economy defines this socioeconomic process as subordinate financialization, in an attempt to underline its dependent and derivative character. Although financial globalisation and liberalisation are closely linked with financialisation, they refer to a set of policy prescriptions, as opposed to an intrinsically critical concept that entails weak investment performance and consumption indebtedness (Lapavitsas and Soydan, 2020).

2.2 Economic actors' financialisation in developing countries

This ongoing socioeconomic transformation has affected the behaviour of large non-financial corporations. In developed countries, they appear to have increasingly utilised more internal finance and open financial markets rather than banks (Lapavitsas, 2013). Albeit with some exceptions, however, developing countries' enterprises predominantly finance their activity through bank-based borrowings and retained earnings (Powell, 2013; Isaacs, 2015). The internationalisation of production has allowed and required non-financial corporations to operate in both domestic and international financial markets to receive funding, hedge currency and operational risks, and invest in financial assets. Both the higher returns from financial activities and the need to protect from macroeconomic risks have led non-financial corporations to employ their wealth in financial investments, intensifying the financialisation process and undermining productive investment (Powell, 2013; Isaacs, 2015). Interactions with international institutional investors have also introduced new pressures towards a shareholder-oriented strategy, owing to their vast international portfolios and easily adaptable positions. On the other hand, banking institutions innovated themselves by mediating in open financial markets and lending to individuals. Foreign banks' entry has been essential in this process, as it spurred the financialisation of the banking sector promoting international borrowing and lending to households (Lapavitsas and dos Santos, 2008). Domestic banks have adopted new technologies that allowed them to engage with the international financial system. They started to provide foreign funding to domestic non-financial corporations, engage in proprietary trading abroad, and obtain funds from international financial institutions (Lapavitsas and Soydan, 2020). Additionally, their profits have increasingly arisen from commissions and fees, and through operations, such as securitisation, financial assets trading, and insurance.

Finally, households have been progressively involved in new financial operations, both as debtors and creditors. Since the 1970s, many countries have implemented neoliberal reforms to national social security systems, favouring the privatisation of social reproduction and the retrenchment of the welfare state. (Lavinas, 2017). This has led households to increasingly rely on bank borrowing to guarantee basic living standards, i.e. for pension, education, health care, etc. Further, labour markets have been deregulated and profit realisation internationalised so that labour costs have been kept down, leading to deficient aggregate demand and stagnation (Bonizzi et al., 2020). With important differences from country to country, the process of financialisation has facilitated the counterbalance of low wages and stagnation tendencies by stimulating aggregate demand through household indebtedness and asset price inflation, which brings about wealth effects on consumption (Becker et al., 2010). In this sense, financialisation has often resulted in a debt-led growth

strategy. These aspects have been especially evident during the global financial crisis of 2007-9 that emerged from increasing banks' assets and intensified individual indebtedness (Lapavitsas, 2010). However, in low income and highly unequal countries, poor households' financialisation has been mainly through debt, while financial assets have been held exclusively by the upper-middle class. From this phenomenon comes the term elite financialisation, as opposed to mass financialisation (Becker et al., 2010). As will be explored in the comparative sections examining South Africa's economy, the exclusion of a part of the population from access to financial assets has worsened income and wealth inequality and has often followed racial or ethnic discrimination (Ashman et al., 2011b; Ashman et al., 2013). Households' involvement in the financial system has offered banks a new source of profit in the form of interest from loans, fees, and commissions. The transfer of value from workers' wages towards the financial sector, especially the banking system, has been defined as financial expropriation (Lapavitsas, 2009a, 2013). This extraction of value originates in the sphere of circulation and is distinguished from exploitation that occurs in the sphere of production, although both are systematic social phenomena resulting in exploitative processes (Lapavitsas, 2009a). The fact that households' indebtedness in developing countries has been sustained by domestic and external banks through free capital flows, further reflects the asymmetric nature of subordinate financialisation (Lapavitsas and Soydan, 2020).

2.3 Subordinate positions in global production networks

As mentioned earlier, financialisation in developing countries has a distinctive subordinate character that relates to the global economy's hierarchical structure, along with the previous financialisation of developed economies. The term subordinate has been introduced by Powell (2013), who explains the experience of financialisation in emerging capitalist economies as deeply marked by contemporary imperialist dynamics and historical country-specific state-class relations (Powell, 2013). The Regulation School has emphasized this important feature identifying peripheral financialisation as a new form of dependency (Becker, 2013). Drawing on dependency theory, periphery refers to a wide range of countries with a high degree of extraversion (and import-dependency on key sectors) or significant socioeconomic heterogeneity (Becker et al., 2010). Partially industrialized countries or countries with a fairly developed financial sector that provides specialized services are defined as semi-peripheral. Therefore, financialisation in developing countries is shaped by their subordinate positions in global financial and productive networks. The formation of global value chains has transformed value creation and labour relations in developing countries. In particular, it has resulted in uneven power relations and extraction of value from countries that usually find themselves providing cheap labour, raw materials, and intermediate inputs (Bonizzi et. al, 2020; Bair, 2005). The specific channels through which developing countries' integration in global production influences, and is affected by, their process of financialisation still need clarification from the literature. However, some insights will be offered in this section.

The internationalisation of global production and the integration of developing countries' firms in international networks have brought about new financial practices and relations while centralising profits and introducing new risks, opportunities, and pressures (Bonizzi et. al, 2020). Many emerging economies have adopted export-led growth strategies that mirror

their subordinate positions in global production (Bonizzi et al., 2020). They have exported surplus-value towards countries where demand is fueled by debt and asset price inflation, resolving the issue of low domestic demand. In this respect, the regulationist approach distinguishes between active and passive extraversion, with the former referring to accumulation based on exports and current account surpluses and the latter indicating accumulation based on capital and commodity imports alongside current account deficits (Becker et al., 2010). As will be discussed in the comparative sections looking at Nigeria's economy, extroverted peripheral economies with a low level of industrial diversification tend to present a passive extraversion with high import dependency. Export-oriented strategies have mediated and, at the same time, strengthened the process of financialisation in developing countries by introducing new sources of vulnerability (Bonizzi et al., 2020). The restrained domestic demand has limited the opportunities for productive investment and led non-financial corporations to channel their profits towards more remunerative financial investments. Moreover, export-oriented economies with current account surpluses have adopted "neo-mercantilist" practices that have fueled the accumulation of international reserves (Painceira, 2009). As will be explored in the following section, when countries did not experience significant current account surpluses, high levels of international reserves have persisted as a mechanism of insurance against highly volatile international capital flows that hinder exchange rate stability (Bonizzi et al., 2020).

2.4 Subordinate positions in the international financial system

Developing countries' financialization experiences have proven to be varied and determined by specific institutional, historical and political backgrounds. However, common features have been identified that are closely related to their subordinate positions in the global monetary and financial system. As will be discussed, international capital flows, the hierarchy of currencies, foreign banks' entry, and foreign exchange reserves all lead to a relation of dependence between emerging and advanced capitalist economies. Since the 1990s, the opening of emerging economies' capital accounts and consequent expansion of finance resulted in financial and currency crises owing to sudden stops of capital flows and falls of domestic currencies. International capital flows have experienced considerable quantitative and qualitative changes. The volume of developing countries' external assets and liabilities has risen from 33% to 130% of their GDP between 1970 and 2013 (Bortz and Kaltenbrunner, 2017). Since the Asian financial crisis of 1997-98, the composition of capital flows towards developing countries has consisted of relatively weak official flows and sustained private flows, especially FDI and short-term flows (Lapavitsas, 2013). The operation of new international actors, such as institutional investors and new types of mutual fund investors, has favoured short term assets denominated in foreign currency, whose returns are often based on capital gains rather than productive investment income (Kaltenbrunner and Painceira, 2015). These capital flow changes have worsened developing countries' vulnerability to sudden stops and exchange rate fluctuations caused by international investors' portfolio adjustments.

The high volume of emerging economies' private debt denominated in foreign currency reflects what post-Keynesian economics defines as currency hierarchy and Marxist political economy refers to as the hierarchical role of (quasi) world money (Kaltenbrunner, 2010; Lapavitsas, 2013; Painceira, 2009). Emerging economies' non-financial corporations borrow

predominantly off-shore and in foreign currency, enhancing vulnerability to exchange rate fluctuations as well as international market conditions (Bonizzi et. al, 2020)[2]. In addition, companies tend to hedge the resulting risks, intensifying further their involvement in international financial markets. Contributing to the instability is the widespread currency carry trade that is spurred by interest rate differentials. Emerging economies have indeed adopted high interest rates to attract foreign capital, ending up being privileged destinations for carry trades. This speculative strategy has exacerbated external vulnerability and financial assets' price volatility, hindering the entry of stable long-term investments (Bonizzi et al., 2020).

Since the end of the 1990s, foreign reserve accumulation has represented the main strategy against international capital flows' instability and exchange rate's volatility (Rodrik, 2006). Developing countries have accumulated high levels of liquid foreign assets to offset the destabilising effects on exports and better standing capital flows' sudden reversals. Reserves include mainly US dollars in the form of low-yielding Treasury securities or other long-term securities. Central banks have issued domestic public securities with the aim of preventing rising inflation following domestic monetary growth. However, public securities' interest rates tend to be much higher than US official ones. This spread represents the cost of reserves paid by society as a whole (Lapavitsas, 2009b). Overall, this costly policy has resulted in capital flowing from poor to rich countries, that is developing countries on the whole have been (net) lending to the US. Further, money spent on reserve accumulation could have been used for investing in the domestic economy or for avoiding external borrowings. In this regard, Rodrik (2006) has estimated the cost of international reserves accumulation to equal approximately 1% of developing countries' total GDP every year. Overall, the US public sector as well as domestic capitalists have benefited from international reserve accumulation. Furthermore, this policy choice has contributed to the development of financial markets in emerging economies, thus facilitating the process of financialisation (Lapavitsas, 2013).

Conclusively, emerging economies' subordinate financialization experiences are inevitably linked to and shaped by their subordinate positions in global production chains and the international financial system. This evolving socioeconomic transformation implies a relationship of dependence towards developed economies. Further, it affects the operation of domestic banks, non-financial enterprises, and households, which progressively engage in new financial activities. As explored, subordinate financialisation is an intrinsically uneven transformation that widens the asymmetries between countries, as well as among groups of the population. Despite the need for further research, financialisation analysis stresses the importance of intersectional discriminations that characterise individual access to finance and the intensification of intersectional inequality that results from reconstructing and employment effects of financialisation (Arestis, 2013; Predmore, 2020; Newman, 2014, 2019; Valodia, 2001; Bateman, 2019)[3]. Finally, it is worth noting that the State had an essential role in this process and thus requires more consideration and research from the literature. The following sections will expose the various nuances of subordinate

[2] Offshore issuance has also the effects of reducing the influence of the national legal system undermining the scope of the developing countries' states (Bonizzi et al., 2020)

[3] Following Social Reproduction Theory, intersectional discrimination and inequality result from gender injustice, racial oppression, and class exploitation. These are analyzed as relational to and determined by capitalist production (Bhattacharya, 2017)

financialization by examining this systemic transformation in the contexts of Nigeria and South Africa. Focusing on the productive and exporting sectors of Nigeria and on the financialization of households for the case of South Africa, the following paragraphs will highlight how subordinate financialization takes different forms. These are closely linked to the different ways of integration in the global economy and to specific historical, political and institutional contexts. Although financialization did not take place in a uniform and linear way, shared patterns between Nigeria and South Africa will be identified, especially as regards the international dimensions of the phenomenon. These common features underscore the dysfunctions of neoliberal development policies and world currencies' hierarchical structure, with the US dollar at the top.

3. South Africa's political economy

3.1 Historical background: the Minerals-Energy Complex

A brief historical contextualisation of South Africa's economy is essential for the analysis of the process of financialisation in the country. The relations with international finance date back to the late 19th century, when European, in particular English, capital began to be involved in diamond and gold mining (Kubicek, 1979). The establishment of capitalist relations in both gold and diamond fields transformed the fields, once populated by individual small diggers, into monopoly institutions characteristic of British capitalism of the time (Innes, 1984). In this period, industrial development and diversification were limited to industries strictly linked with the mining sector. With the rise of Afrikaner nationalism, the state endeavoured to create and support Afrikaner capital by deploying the surplus from mining to this goal. The establishment of state corporations in electricity, steel and transport during the interwar and post-war periods reflects the uneasy compromise between English mining capital and Afrikaner capital (Ashman et al., 2013). A common interest between these conflicting economic power and political power was generating and sharing surplus from mining, alongside exploiting black migrant labour. In the following decades, the process of consolidation and integration of Afrikaner capital with English capital through state-led large-scale investment in the Minerals-Energy Complex (MEC) persisted, with the gradual incorporation of financial services (Fine and Rustomjee, 1997). Under the sanctions against apartheid, the economy saw confinement of capital within domestic borders that enhanced financial markets' development and intensified productive capital and finance concentration within the conglomerate mining houses (Karwowski et al., 2018).

3.2 Integration into global productive and financial networks

In this sense, South Africa initiated the integration of its economy into global productive and financial networks in the post-apartheid period with an already initiated domestic financialisation. In the early 1990s, the coalition of political forces for progressive change, the charismatic and internationally supported president Mandela, the set of economic policies advanced with the Reconstruction and Development Programme (RDP), and the long-time international solidarity were all suggesting a future equitable, job-creating and productive economic trajectory. Nonetheless, South Africa's democratic transition quickly saw a shift in the African National Congress' (ANC) approach, which fully embraced neoliberal macroeconomic policies. For instance, this was evident in the Growth,

Employment and Redistribution (GEAR) programme of 1996, whose core policies were fiscal restraint, inflation targeting, and liberalisation. As Isaacs (2014, p. 18) puts it, GEAR was "essentially a somewhat self-imposed structural adjustment programme which sits squarely within the neo-liberal, Washington Consensus, New Consensus Macroeconomic framework". Together with the processes of globalisation and financialisation that followed, this set of policies significantly impacted South Africa's economic sectors and class relations. The post-apartheid period has seen capital restructuring in the MEC, with conglomerate unbundling driven by the necessity of updating the centralised and outdated managerial structures (Ashman et al., 2013). The availability to unbundle was also backed by falling profit rates and the interest in anticipating domestic competition actions (Carmody, 2002). However, the concentration of domestic production within sectors remained high. In parallel to the restructuring, there was an attempt of the ANC to support a new class of politically connected, enriched, black entrepreneurs, through "Black Economic Empowerment" (BEE) (Karwowski et al., 2018). As Ashman et al. (2011b) highlighted, such "empowerment" deepened the connections with international capital and did not translate into a new productive social class. Instead, it benefited only a minority, leaving the predominant white economic power intact. The new elite corresponded to around 10% of the top 20% of high earners, while black capital remained "systemically weak if politically powerful" (Ashman et al., 2011b, p. 15). As will be discussed in the following section, these economic patterns and social relations shaped South Africa's experience of financialisation.

4. Nigeria's political economy

4.1 Colonial legacy and international economic dimensions

The colonial legacy of Nigeria's integration within the global capitalist economy has contributed to political and economic instability by interfering in the internal logic of the country's development and consequently altering power structures and class relations (Nagziger, 1973). Nigeria has indeed specialised in raw materials and other primary commodities production, which was instrumental to core capitalist countries' industrial development. Overall this economic legacy hindered domestic industrial growth and the consequences are still relevant today. The country is in fact characterised by a weak, outdated, and externally dependent productive and technological base (Ezema and Ogujiuba, 2012). The dominance of overseas banks represents another colonial legacy, which is in part responsible for the foreign industrial sector's power (Nagziger, 1973). Further, foreign firms have benefited from industrial discrimination and other governmental concessions, such as equity and loan finance, land acquisition and import duty relief (Oni, 1966). Indigenous firms encountered difficulties meeting their potential, while external business interests were supported by foreign political and economic assistance. Foreign companies were dominating the domestic productive sector to the extent that Nigerian income represented less than 30% of value-added in large manufacturing firms in 1963 (Lewis, 1967). The net outflows of private direct investment were indeed higher than the net inflows. Furthermore, trade unions have struggled to build a strong united movement as a consequence of the British Colonial Office's reluctance, the dependence upon foreign financial support, and opposition by nationalist leaders' labour organisations (Nagziger, 1973). In the aftermath of independence, social unrest began as workers realised the

political elite’s missing efforts in rebating the unequal colonial wage structure. Since the 1950s, the country has been characterised by regional and class struggles for commensurate shares of the economic advantages deriving from independence. These tensions resulted in two coups d’etat of 1966 and the civil war of 1967-70. As Kraus (2002) stated the country has been historically characterised by massive infrastructure deterioration and fractious ethnic politics. Routinely, we have seen the negative consequences levied in the country due to outside forces, often from the Global North.

4.2 Petroleum production and financial liberalisation

Since the discovery of crude oil in the country, authorities have invested predominantly in petroleum production, intensifying the country's dependence on oil market price. With the slowdown in global economic activity of the 1970s and 1980s, oil prices have declined, deteriorating Nigeria’s balance of payments. The consequent decrease in export revenue, coupled with the relative decline of the domestic agricultural sector have entailed severe current account deficits in the early 1980s (Udeogu, 2015). In an attempt to ease these issues, the authorities initiated a process of financial liberalisation of the banking industry in 1986, as part of the Structural Adjustment Programme (SAP) promoted by the IMF and World Bank. In line with the SAP, Nigeria’s government eased restrictions on interest rates, bank ownership, foreign exchange and capital movements (Lewis and Stein, 1997). The answer to financial liberalisation has been an explosion in financial services, followed by deep financial distress owing to weak institutional and political settings and an unstable macroeconomic climate (Lewis and Stein, 1997). For these reasons, national authorities entered a re-regulation phase in 1991, introducing new prudential recommendations on asset quality and demanding banks a more transparent accounting and loan analysis (Udeogu, 2015). Only in 1999, the country experienced a return of liberalisation and introduced a universal banking system. As will be discussed in the section that follows, these dynamics of economic and financial reforms will be evident in the analysis of international capital flows movements.

5. International dimensions of subordinate financialisation

5.1. Financial liberalisation and international capital flows changes

By analysing monetary policies promoting financial liberalisation in South Africa and Nigeria, this section will explore capital flows and national financial accounts’ evolution since the late 1980s. As will be discussed, from the opening of their capital account forward, South Africa and Nigeria have experienced new forms of external vulnerability related to their subordinate positions in international finance and global production networks. Following the process of democratisation of 1994, South Africa’s authorities implemented the GEAR programme. Along the lines of the Washington Consensus paradigm, GEAR included a sharp reduction of government debt, a monetary framework of inflation targeting, capital flows liberalisation, a more flexible job market, and a competitive exchange rate (Isaacs, 2014). The GEAR programme of 1996 promoted financial liberalisation in the country and added an international dimension to the process of domestic financialisation. As mentioned previously,

the period of financial closure under sanctions against apartheid had allowed the domestic financial market to develop, likely contributing to the prompt and sharp rise in capital inflows following the capital account opening.

Consistently with the World Bank's methodology, the figures in this section show Nigeria and South Africa's financial accounts and capital inflows. Portfolio investment covers equity and debt securities, while foreign direct investment (FDI) denotes the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital. As observable in figure 1, South Africa's portfolio inflows have grown during the second half of the 1990s and declined sharply at the beginning of the 2000s, likely in response to exchange rate pressures in 1998 and 2001. However, both portfolio equity inflows and FDI inflows have recovered throughout the 2000s. South Africa's financial account has been in deficit since that period (see figure 2). Both net FDI and portfolio investment have been highly unstable since the 1990s, with the latter being negative since the financial crisis of 2008-9 until recent years.

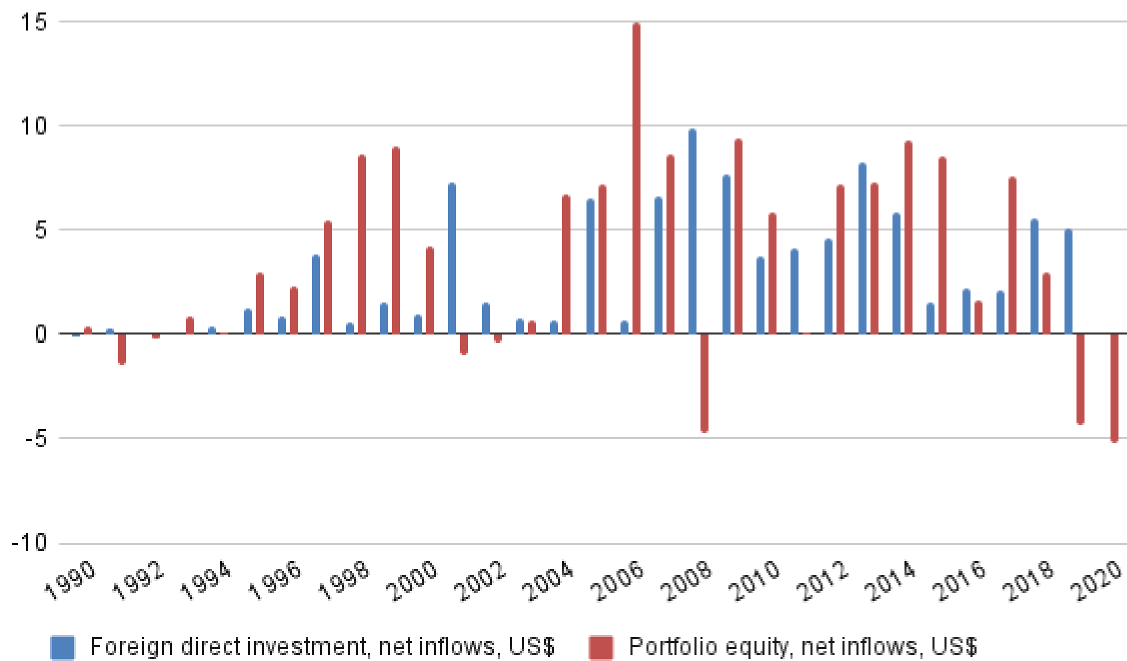

Figure 1. South Africa's FDI and portfolio inflows (US$ billion). *Source: World Bank World Development Indicators (WDI)*

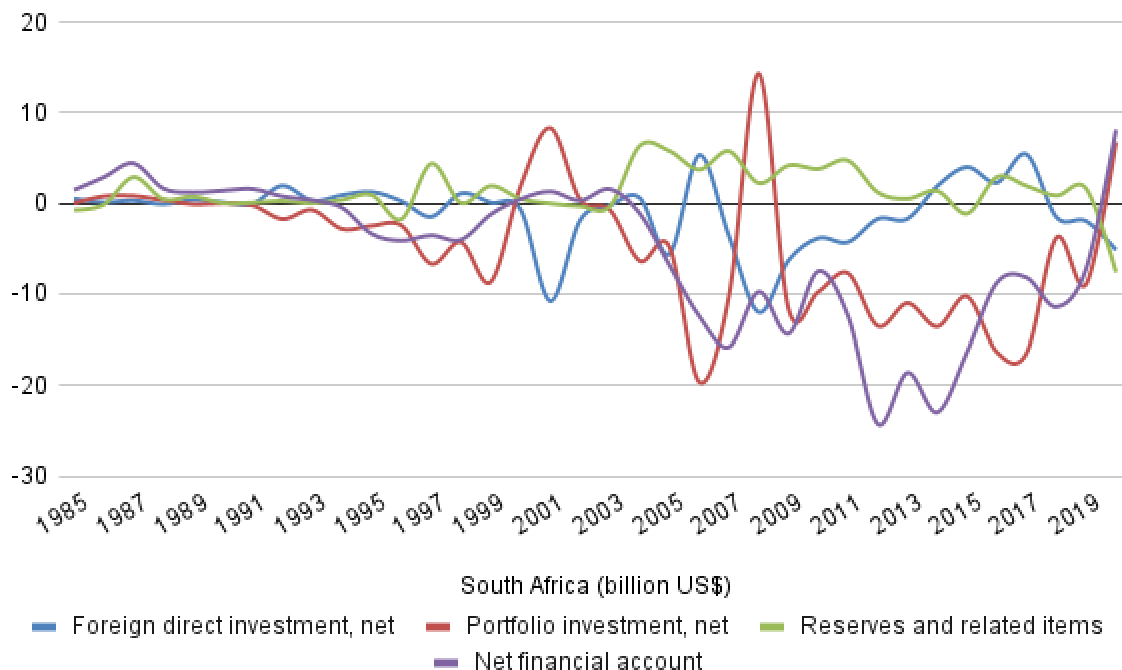

Figure 2. South Africa's financial account. *Source: World Bank WDI*

Since the country opened its capital account, its integration in global financial markets has not only changed in quantitative terms but has also transformed in nature. A dramatic increase in rand-dominated and short-term financial assets has taken place in bond, equity and derivatives markets (Isaacs and Kaltenbrunner, 2018). These assets have been held and traded by international investors for capital gains. As a consequence, the economy has undergone large and sudden swings in domestic economic prices, such as the exchange rate, driven by portfolio considerations rather than domestic economic "fundamentals". Despite an increase in capital flows is a common feature of financialisation in both developed and developing countries, the significant involvement of international investors, the high level of carry trade, and the off-shore nature of financial assets all highlight the subordinate character of financialisation in South Africa. To counteract the volatility and unpredictability of domestic prices, the South African Reserve Bank (SARB) has accumulated international reserves and performed sterilisation operations (Isaacs and Kaltenbrunner, 2018). The former policy option has been adopted as a substitute for the costly exchange rate intervention typical of the 1990s. However, foreign reserve accumulation has brought about high costs because the SARB keeps higher interest rates on its liabilities than its yields on international reserves. On the other hand, reserve accumulation can result in excess liquidity that requires sterilisation operations, especially with a monetary framework of inflation targeting. The SARB has therefore employed open market instruments, such as reserve repos and debentures, whose interests are higher than those received from the liquidity provision to banks. These market-centric policy choices have deepened the process of financialisation, as they created short-term liquid assets with high and safe returns that have been appealing to both international and domestic investors (Isaacs and Kaltenbrunner, 2018). As a result, domestic debt and banks' liquidity have expanded, leading to higher speculative investment and short-term lending by banks,

especially to households. In light of these developments and the widespread detrimental capital flights, a reorientation of monetary policy towards fulfilling local development needs has been advocated - in this direction would be the introduction of short-term capital controls (Ashman et al., 2011a).

On the other hand, Nigeria opened its capital account to the rest of the world in 1986, earlier than South Africa. Nevertheless, its financial account has not encountered large imbalances until the beginning of the 2000s. Similarly, international capital has begun flowing consistently into Nigeria's economy only at the turn of the twenty-first century. This could be partly related to the overall increase in global liquidity as a result of looser financial conditions in core countries and leverage activities of global banks that accelerated capital flows across borders (Shin, 2013). Unprecedented low interest rates in developed countries facilitated the over liquidity leading investors towards profitable opportunities in emerging economies (see for instance the evolution of the US policy rate in figure 3).

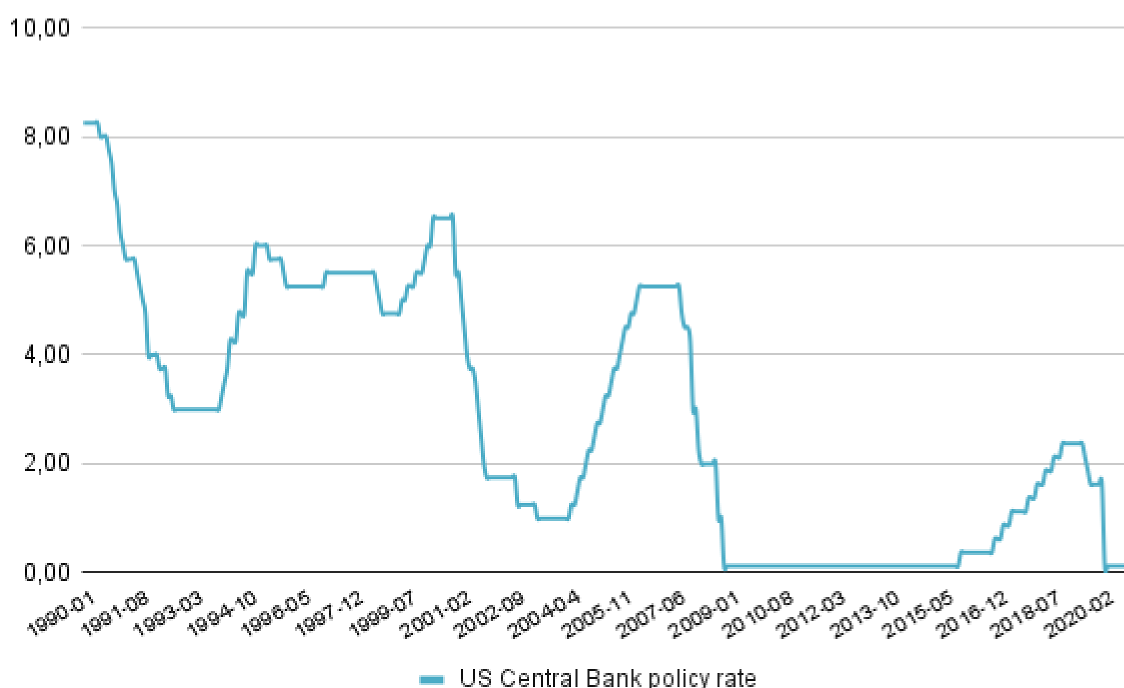

Figure 3. US central bank policy rate. *Source: BIS Central Bank Policy Rates*

In addition to changes in global liquidity, domestic banking sector erratic reforms seem to have determined capital movements as well. As mentioned earlier, Nigeria's financial liberalisation has been followed by a sharp increase in financial activities, especially interest rate arbitrage and exchange rate trading. Owing to a highly unstable political and institutional environment and external macroeconomic vulnerabilities, the country faced a banking bubble and a phase of reregulation. Only with the re-introduction of financial liberalisation policies in 1999, Nigeria has experienced a highly unstable financial account with a substantial surplus during the years preceding the financial crisis of 2008-9 (see figure 4). In the wake of the global financial crisis, Nigeria has faced negative net portfolio investment and net FDI, and highly fluctuating reserve accumulation.

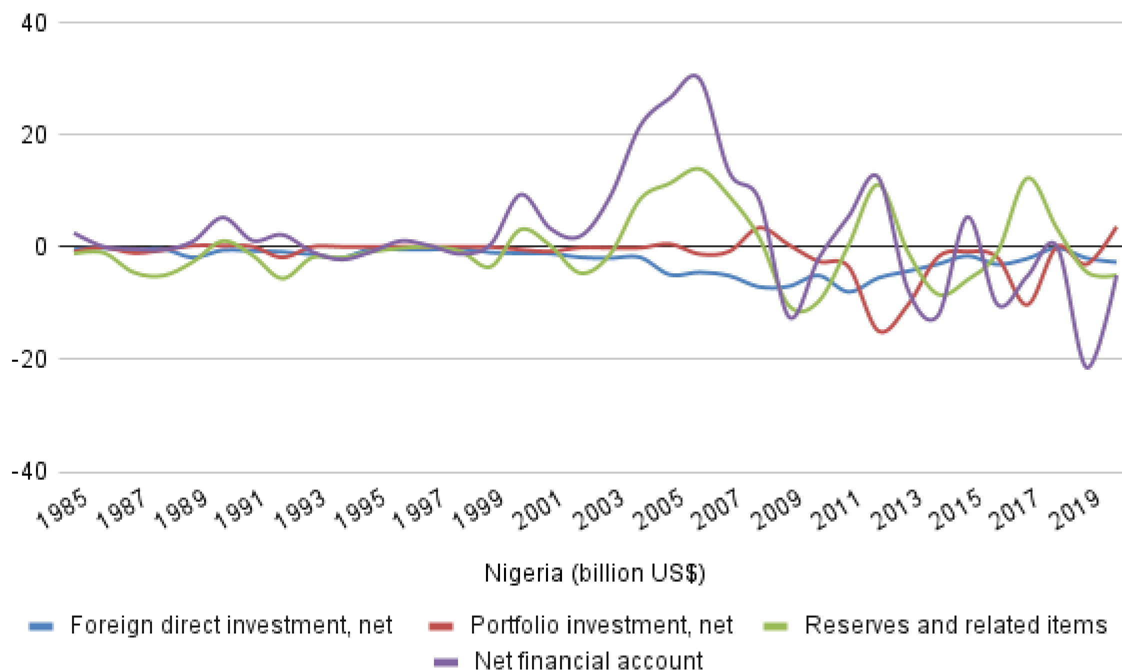

Figure 4. Nigeria's financial account. *Source: World Bank WDI*

Since deregulation, capital inflows have more than doubled and have been dominated by short-term and liquid portfolio investment flows. A significant proportion of these flows has been directed for financial assets' accumulation instead of long-term investment in the real sector. The average percentage of portfolio inflows employed as loans to domestic financial institutions between 2007 and 2013 has been 26%, compared to the 2% allocated in the real sector (Udeogu, 2015). The high level of capital inflows that Nigeria experienced since the beginning of the 2000s has contributed to the development of Nigeria's stock market but has brought the Central Bank of Nigeria (CBN) to keep a high policy rate to adjust inflation. Similarly to the SARB, the CBN has increased foreign exchange reserves accumulation to protect the economy from currency crises in the event of sudden capital outflows. The former policy option has increased the cost of capital at the expense of domestic firms, while the latter policy choice has entailed a channel of capital outflows. Indeed, a large proportion of international reserves corresponds to US treasury securities that yield low interest returns. The difference between US treasury securities' interest rates and the high interest rates national firms find themselves to pay highlights the subordinate character of financialisation in the country. Overall, CBN's monetary policies in reaction to capital flows' volatility have intensified the potential gains from financial activities, such as exchange rate trading and interest rate arbitraging (Udeogu, 2015). Financial liberalisation has also altered socioeconomic dynamics widening income inequality. Few private financial firms with access to international financial markets have been able to gain from the interest spread, borrowing at low rates from abroad and investing in domestic assets with higher returns (Udeogu, 2015).

In addition to causing a loss of potential capital and rendering domestic capital costs higher, international capital flows have also proven Nigeria's significant dependence on a single commodity's exports (Ezema, 2009). As figure 5 shows, FDI inflows and portfolio equity

inflows have followed oil's market price during the last two decades. From the figures in the appendix it is possible to compare these results with the case of South Africa, where capital inflows have not followed precious metals and minerals' export prices, confirming a higher level of export diversification. Indeed, Nigeria's fuel exports correspond to around 94% of total merchandise exports, while South Africa's merchandise exports appear more diversified (see figures 6 and 7). Here, manufactures account for 43%, ores and metals for 26%, both fuel and food for 11% each, and agricultural raw materials for 2,3%. As will be explored in the following section, these different levels of export diversification highlight distinct types of extraversion between the two countries.

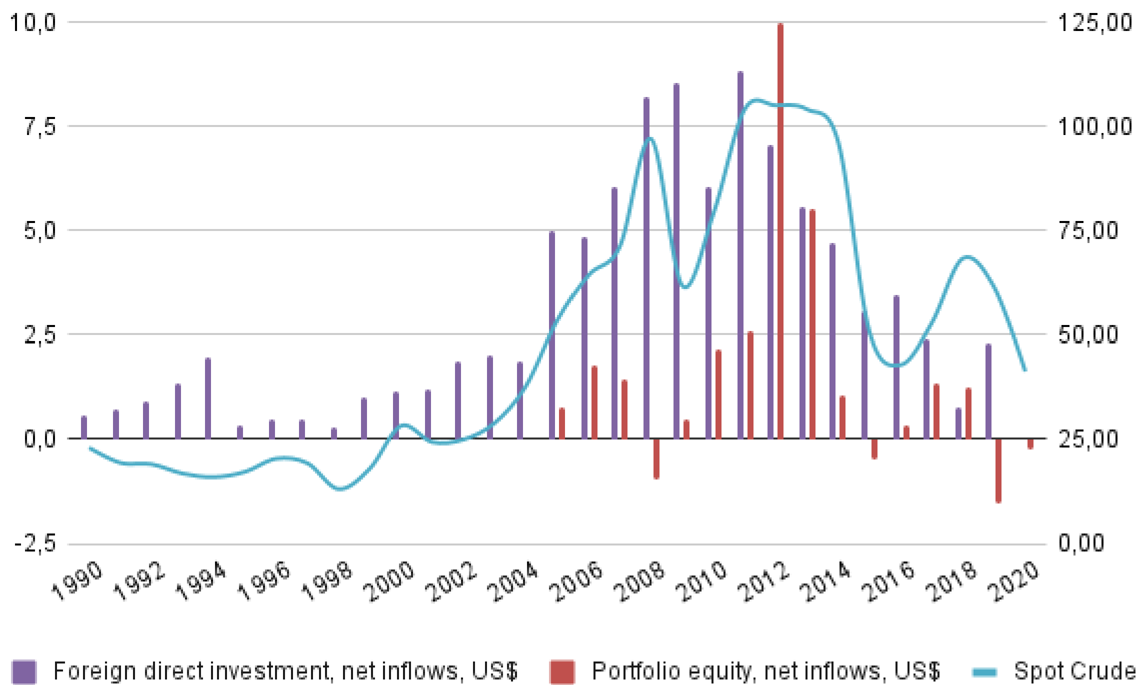

Figure 5. Nigeria's FDI and portfolio inflows (US$ billion), crude oil's market. *Source: World Bank WDI*

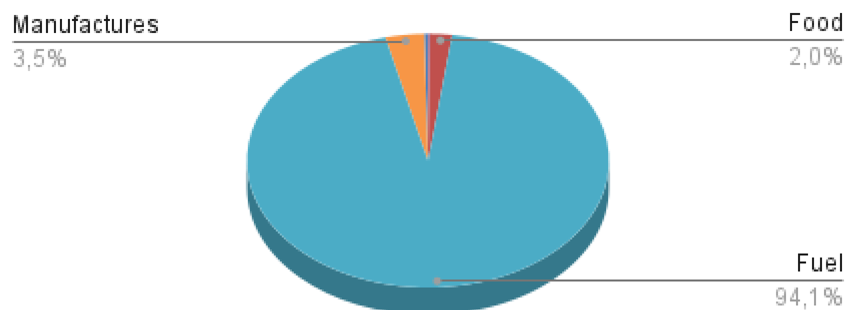

Figure 6. Nigeria's export composition. *Source: World Bank WDI*

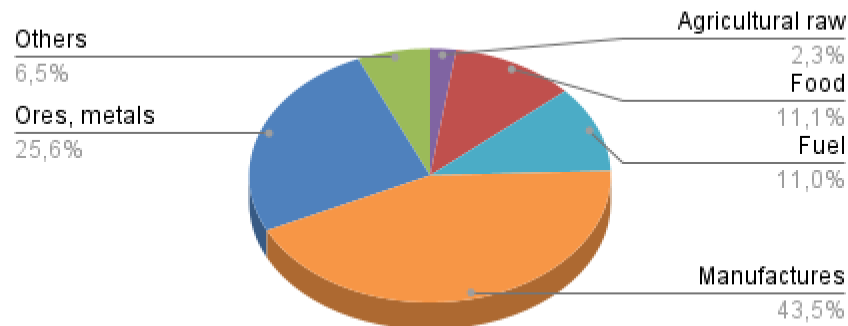

Figure 7. South Africa's export composition. *Source: World Bank WDI*

5.2. Nigeria's passive extraversion and oil-dependency

As discussed in section 2.3., systems of accumulation in peripheral economies are characterised by passive extroversion whenever the economy presents an outward orientation with high import dependency (Becker et al., 2010). This seems to be the case for Nigeria's peripheral economy, whose production is export-oriented and dominated by crude oil, while consumption is import-dependent. The structural disarticulation between consumption and production is rooted in Nigeria's colonial history and mode of integration into global production (Jack, 2016). The country's economic dependence is indeed linked to the colonial economic structure that impeded self-sufficiency to develop. Before crude oil was discovered in commercial quantities in the early 1970s, agricultural exports represented the main source of foreign exchange earnings. The northern region was involved in peanut production, the western region was known for cocoa production, and the eastern region was characterised by established palm plantations (Onuka, 2017). Since the discovery of crude oil, the Nigerian authorities have neglected the potential of agricultural production, intensifying the country's dependence on crude oil, whose market price has proven to be very volatile. As a result, Nigeria has been heavily dependent on foreign capital, with a weak and monolithic industrial base coupled with food insecurity due to difficulties in paying its food import bills. Nigeria's vulnerability to oil price volatility is confirmed by the current account shown below, which has followed the evolution of crude oil prices over the past two decades (see figure 8). Indeed, the country experienced a sustained and high current account surplus during the 2000s, when the price of the oil market was rising. It has experienced a larger current account deficit since the market price of oil dropped sharply from around $105 a barrel in 2013 to around $43 in 2016[4]. In the same period, the new government terminated the peacebuilding program in the Niger Delta, causing the insurgency of conflict in the oil region and the shutdown of 50% of crude oil production (Okoi, 2019). These developments reflect the economy's dependence on oil exports and the lack of industrial diversification, which have led to severe negative terms-of-trade shocks (Ezema and Ogujiuba, 2012). The extreme concentration of Nigerian exports also led to excessive monetization of oil revenues, which hindered the expansion of the domestic production sector (Ezema and Ogujiuba, 2012). On the other hand, the semi-peripheral economy of South Africa has experienced moderate current account surpluses during the 1980s and

[4] Figures obtained from the IMF Primary Commodity Prices database.

1990s, while encountered large and persistent current account deficits during the 2000s and 2010s (see figure 9). These have been financed by massive capital inflows attracted by high policy interest rates (Newman, 2014). As opposed to the case of Nigeria, South Africa's current account has not closely followed either minerals' market prices (such as those of coal and iron) or precious metals market prices (such as those of platinum and gold), mirroring a higher level of industrialisation and diversification.

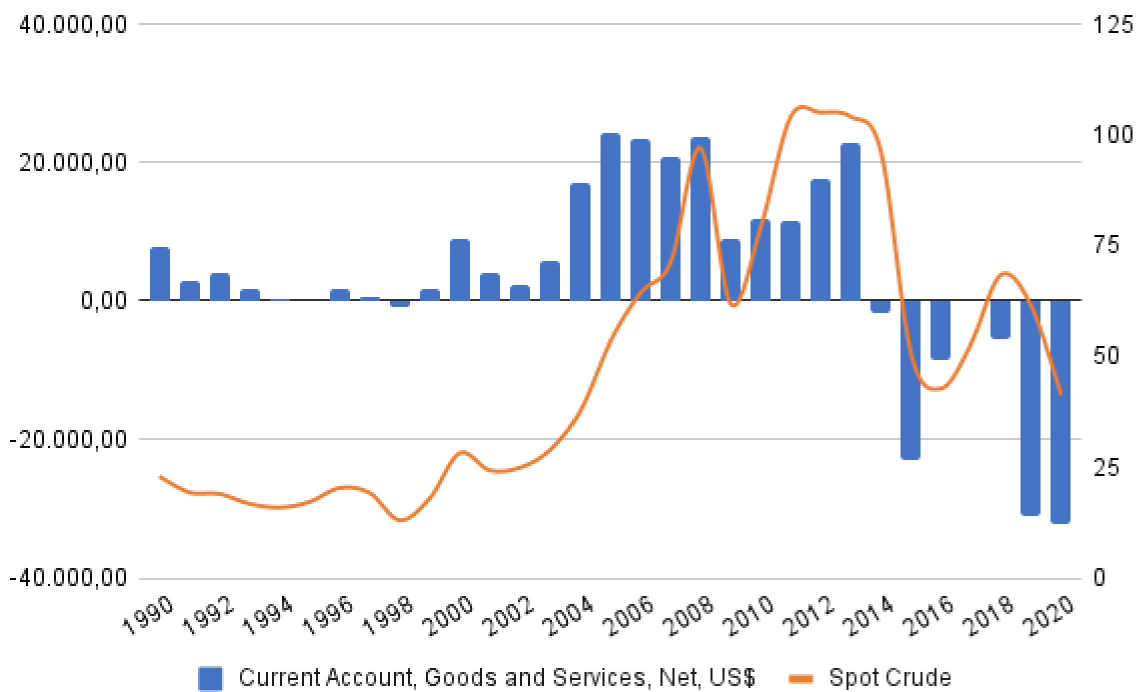

Figure 8. Nigeria's current account compared with crude oil's price. *Source: IMF IFS database*

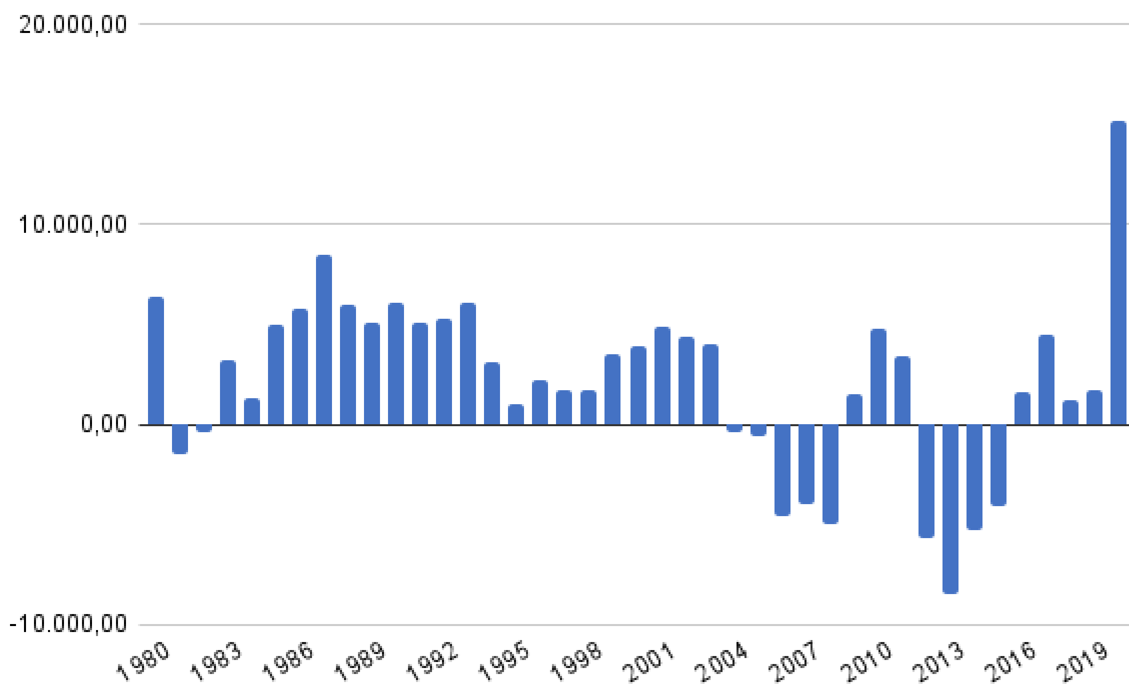

Figure 9. South Africa's current account. *Source: IMF IFS database*

6. Economic actors' financialisation and socioeconomic development

6.1. Financial market development and sector dynamics

Capital flows' quantitative and qualitative changes have inevitably affected the performance of the domestic financial systems. Nonetheless, as explored by analysing current and capital accounts, Nigeria and South Africa show different experiences of financialisation. These divergent paths will be investigated in the following sections by analysing how domestic financial systems' development has affected economic actors' behaviour and sector dynamics. A way to attest financial market development in Nigeria and South Africa is financial depth measured in terms of liquid liabilities to GDP. As observable in figure 10, Nigeria's financial depth is significantly lower than South Africa's, although both countries' ebbs and flows seem to be cyclical rather than secular (Kvangreven et al., 2021). Indeed, South Africa's liquid liabilities to GDP have declined from 60% in the mid-1960s to around 40% in the 2010s, while Nigeria's liquid liabilities to GDP have risen to just over 20% of GDP in the last decade.

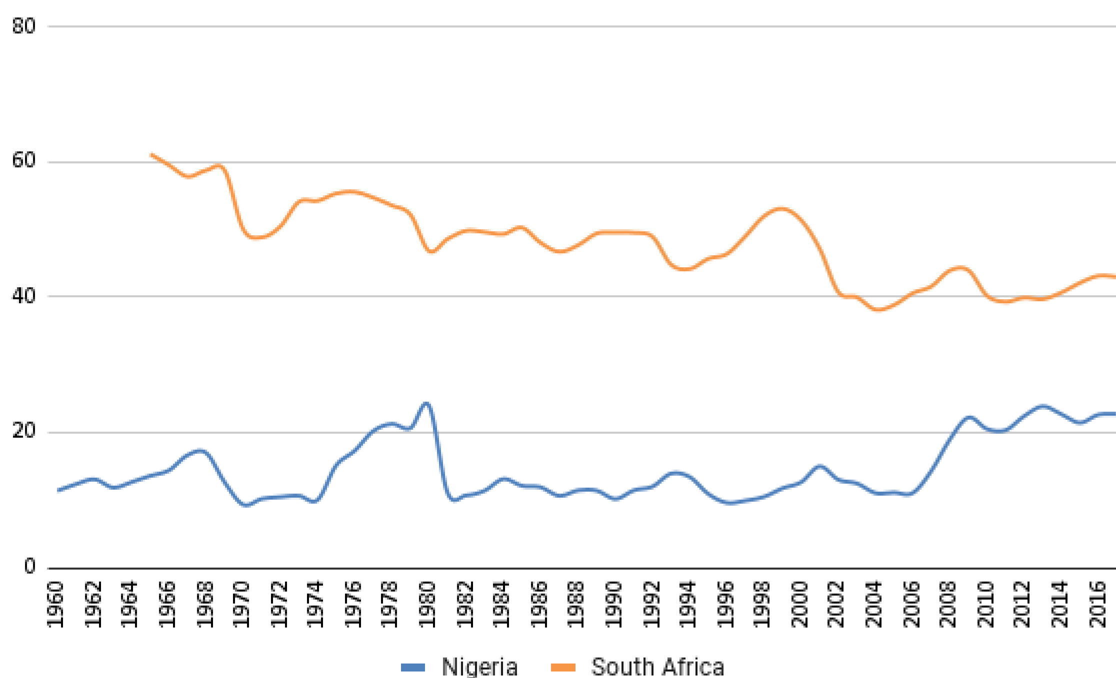

Figure 10. Liquid liabilities to GDP (%). *Source: World Bank Global Financial Development*

On the other hand, financial sectors' size as compared to the real economy can be measured by banks and other financial institutions' assets to GDP (Powell, 2013). These are represented in figures 11 and 12, and demonstrate that South Africa's financial sector is developing, while Nigeria's domestic financial system shows no secular trend. Indeed, money deposit banks' assets have not exceeded 25% of GDP in Nigeria, while the financial system's deposits have remained below 20% of GDP. In contrast, money deposit banks' assets have surpassed 75% of GDP in South Africa, while the financial system's deposits have fluctuated around 60% during the last decade.

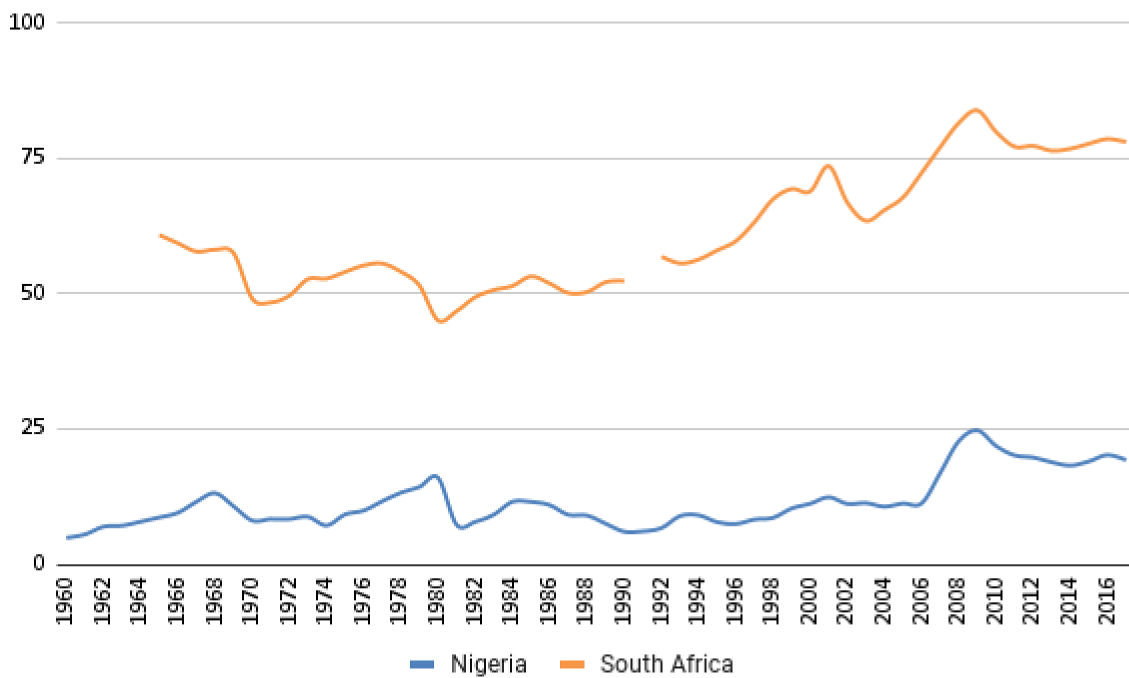

Figure 11. Deposit money banks' assets to GDP (%). *Source: World Bank Global Financial Development*

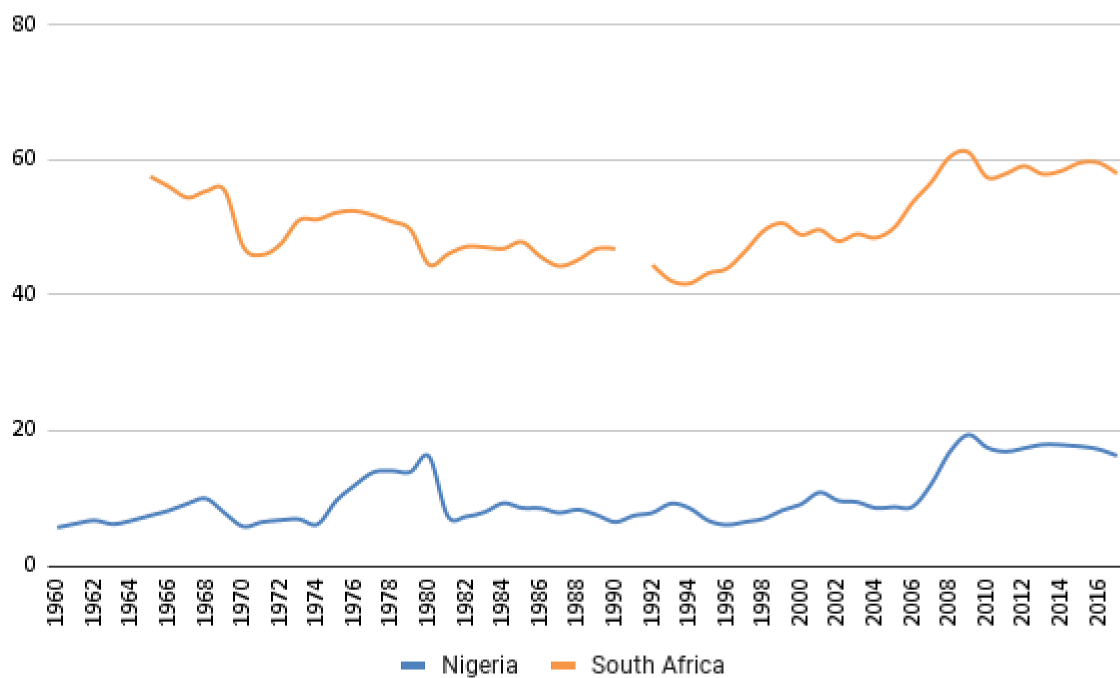

Figure 12. Financial system's deposits to GDP (%). *Source: World Bank Global Financial Development*

The growth of South Africa's financial sector and conglomerates' access to international capital markets have been advocated since the end of apartheid as a way to boost

productivity and investment in the domestic economy (McGregor and Zalk, 2017). As evidenced above, the set of policies implemented to this end have allowed the financial sector to grow significantly. From accounting for 10% of total GDP in the 1960s, finance has risen to more than a fifth of total annual output (Karwowski et al., 2018). In parallel to the deepening and widening of its financial sector, closely linked with the expansion of the MEC, South Africa has seen a sharp decline in the labour-intensive manufacturing sector, as evidenced by the work of Ashman and Newman (2018) on deindustrialisation in the province of Gauteng. The deindustrialisation process associated with the rise of finance has heavily impacted income inequalities in the country by aggravating the already high levels of unemployment (Newman, 2014). The reconstructing of the MEC has indeed channelled the already low levels of overall investment (rarely exceeding 20% of GDP) towards capital-intensive core sectors, undermining productivity, employment, and wages (Karwowski et al., 2018).

Similarly, policies leading to neoliberal social structures of accumulation in Nigeria caused a flight of human and physical capital from weak real sectors to the financial sector (Udeogu, 2015). The deregulation of interest rate and exchange rate controls has indeed increased the profitability of currency trading and financing, allowing the banking sector to grow (Ezema and Ogujiuba, 2012). While the number of operating financial intermediaries was increasing, the real sector was shrinking, with agricultural and manufacturing sectors' contributions to GDP and saving rates either stagnating or declining, i.e the overall output of non-extractive manufacturing has passed from contributing to 9% of total domestic output in 1980-84 to accounting for around 1,5% of total output in 2010-11 (Udeogu, 2015). Further, the process of privatisation starting in the 1990s has not improved the infrastructure of the country, hindering profit possibilities for domestic enterprises. Notably, oil refineries have been dilapidated since their privatisation in the early 2000s, so that crude oil is now exported abroad and then imported back once refined (Ezema and Ogujiuba, 2012). These developments highlight once again Nigeria’s subordinate position in global production networks, which has inevitably affected its experience of financialisation.

6.2. Financialisation of the productive sector and MSMEs development

The developments of South Africa and Nigeria’s financial systems described above do not necessarily imply processes of financialisation. Rather, they are integral aspects of capitalist economies’ maturing (Lapavitsas and Soydan, 2020). Similarly, increases in international capital flows could simply be the result of financial liberalisation and deregulation policies. On the other hand, signs of financialization could also arise in a developing country with an underdeveloped financial sector or a low level of financial innovation. As discussed earlier, financialisation is a systemic and evolving socioeconomic transformation that affects the operations of households, banks and non-financial corporations and entails weak investment performance. With this in mind, the following paragraphs will explore how economic actors’ operations have changed in South Africa and Nigeria during the last two decades, and what have been the outcomes of these variations for the two countries' economic developments.

South Africa's non-financial corporations have transformed considerably in the last few decades, as evidenced by the market capitalization of Johannesburg Stock Exchange's (JSE) listed companies. Their value indeed passed from half of GDP in the 1970s to 320% of GDP in 2016 (Karwowski et al., 2018). In this regard, Bowman (2018) investigated the

effects of financialisation on corporate strategy in South Africa's platinum extractive industries. The integration of companies into global capital markets has posed new pressures to yield higher shareholder returns. Companies have engaged in balance sheet leveraging, large dividend payments and risk-taking behaviour during booms. As Bowman highlights, these tendencies of financialisation clash with the nature of mining as a land-based industry requiring high levels of capital investments and long production lead times. Further, strategies of shareholder value delivery tend to aggravate the already cyclical and volatile nature of extractive industries, resulting in increased financial fragility and excess capacity (Bowman, 2018). Examining the mining sector as well, Karwowski (2015) reports the high liquidity preference among mining companies, which tend to accumulate a high level of cash due to both speculative and precautionary motives. High cash holdings on companies' balance sheets are indeed justified by speculative activities such as mining exploration and trading in mining assets, the need to substitute financial income for declining operational profits, or the necessity to tackle potential operational losses (Karwowski, 2015). While the latter motive is precautionary and typical among emerging mining companies, the former two reflect firms' speculation that undermines productive investment, job creation and financial stability. Further, corporate restructuring associated with financialisation, namely downsizing and outsourcing of non-key functions, has widened wage inequality by rendering employment increasingly precarious and rising levels of informality with downward pressures on low-skilled jobs' wages (Newman, 2014).

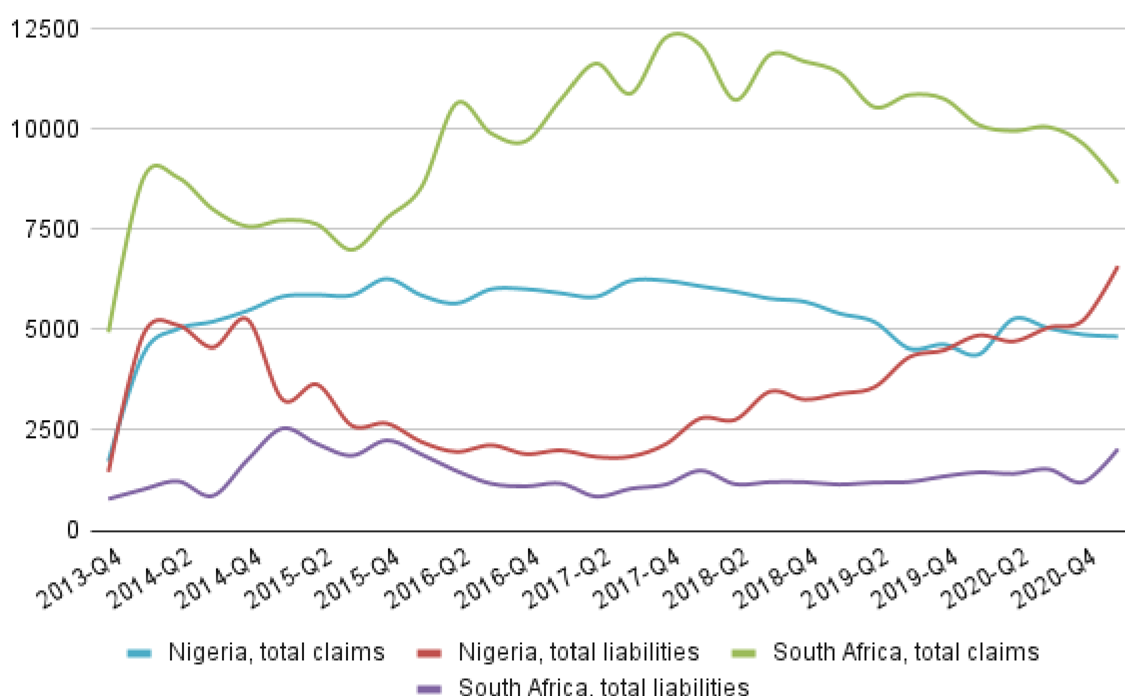

Figure 13. Non-financial corporations' cross-border positions. *Source: IBS Locational Banking Statistics*

South Africa's non-financial corporations have therefore experienced a marked process of financialisation with international characteristics. Although available data on non-financial enterprises of the Bank for International Settlement (BIS) only covers the years following 2013, it is possible to compare the recent cross-border positions of South Africa and

Nigeria's non-financial companies. As represented in figure 13, the cross-border claims of South Africa's non-financial corporations have been significantly higher than their liabilities. On the other hand, Nigeria's companies have held a relatively lower level of claims than South Africa's while liabilities have been higher, with a convergence of the two in the last couple of years.

Nigeria's non-financial businesses have experienced different developments than the case of South Africa's. The number of non-financial companies listed on the Nigerian Stock Exchange (NSE) has indeed declined from 250 in 2002 to only 156 in 2021, with 30% of the remaining firms in financial services, 13% in consumer goods, 9% in natural resources (including oil and gas), and only 3% in agriculture[5]. The growth in financial activity has posed new hindrances to the non-financial sector (Ezema and Ogujiuba, 2012). Policies of deregulation and liberalisation have translated into high levels of foreign exchange speculation and interest rate arbitraging, which in turn have kept the cost of capital high in the country (Udeogu, 2015). Contributing to the adverse effects of financialisation on enterprises' profitability, uneven competition between undeveloped peripheral production processes and advanced quasi-monopolistic capitals has lowered the possibilities of the former to obtain an adequate rate of profit (Udeogu, 2015). Facing higher costs of capital and production than international competitors, domestic firms have not expanded their productive activities, leading to a declining rate of capital accumulation. In this setting, companies have also transformed their business strategies, switching from a long-term labour-centred approach to a short-term approach with detrimental effects on the labour market. The realities of unequal international competition and the general weak connections between financial activities and real production processes have led to intensified inequalities, higher unemployment, and increased poverty (Udeogu, 2015).

Particularly important for economic development are business opportunities to micro, small, and medium enterprises (MSMEs). They indeed contribute significantly to enhance living standards by adopting more labour-intensive production processes than large corporations. Moreover, MSMEs support the systemic productive capacity of the country by substantially improving local capital formation and driving innovation and competition (MSME National Survey, 2010). Nigeria is characterised by a remarkably elevated number of MSMEs that corresponds to 60 times the number of MSMEs in South Africa[6]. Nigeria's MSMEs contribute to approximately 50% of total GDP and account for more than 80% of overall employment (MSME National Survey, 2019). However, the sector continues to face important challenges that ultimately impact the country's economic growth. Among the biggest obstacles are lack of access to finance, inadequate and irregular supply of power and water, and high tax rates. As a consequence of these impediments, firms tend to close within a short period following their establishment, with an average rate of closure of 5 firms out of 10 failing within 5 to 10 years from their formation (MSME National Survey, 2010). It is worth noting that among Nigeria's MSMEs 99,8% are micro-enterprises, namely firms employing less than 10 people. The substantial gap between micro-enterprises and SMEs is evidence of the high level of informality in the economy caused by high costs of entry into formal settings, elevated unemployment, poverty, and low infrastructural development (MSME National Survey, 2010). According to the SME Finance Forum (2017), the number of Nigeria's informal enterprises

[5] Data obtained from the NSE listed companies data ngxgroup.com.

[6] Data obtained from MSME Finance Gap Report - SME Finance Forum, 2017 smefinanceforum.org

as a percentage of formal firms corresponds to 113%, while South Africa's percentage is 34% (see figure 14).[7] Further, the finance gap is largely higher among Nigeria's MSMEs than South Africa's[8]. This evidence is confirmed by the dramatic trend in Nigeria's commercial banks' loans to small scale enterprises as a percentage of total credit, which decreased from 27% in 1992 to 0% around the global financial crisis of 2008 (see figure 15).

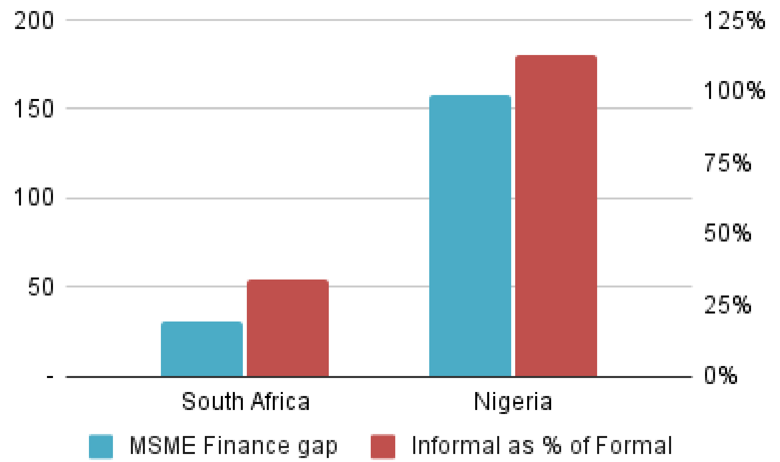

Figure 14. MSME finance gap and informality

Overall, the elevated number of micro-enterprises suggesting a high level of informality and recent trends in banks' credit to small scale enterprises explain why almost 50% of Nigeria's MSMEs are partly or fully constrained in their access to credit, meaning they either could not obtain external financing or have been discouraged from applying for a loan from a financial institution (see figure 16). These results contrast with the experience of South Africa's MSMEs, of which 84% do not seem to have any problems accessing credit or have sufficient capital on their own (see figure 17).

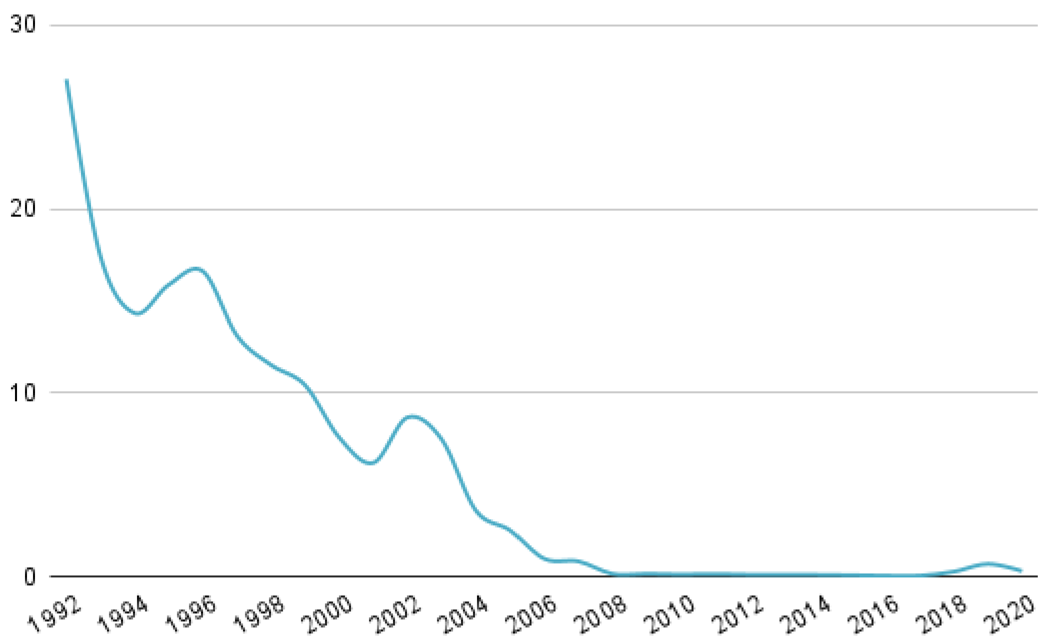

Figure 15. Commercial banks loans to small scale enterprises as a percentage of total credit in Nigeria (%). *Source: CBN statistical bulletins*

[7] *Source: MSME Finance Gap Report, 2017*

[8] The finance gap is understood as the difference between current supply and potential demand that could be addressed by financial institutions.

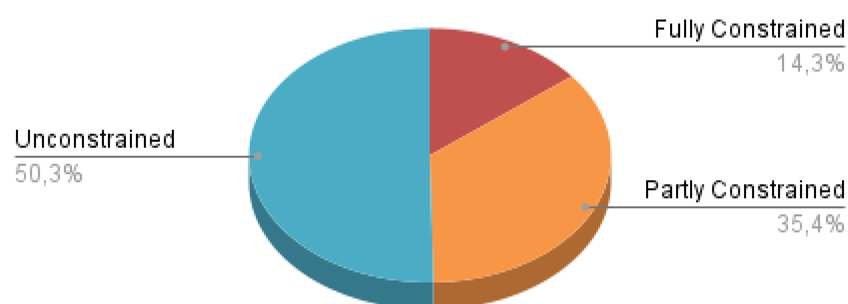

Figure 16. MSMEs' access to credit in Nigeria. *Source: MSME Finance Gap Report, 2017*

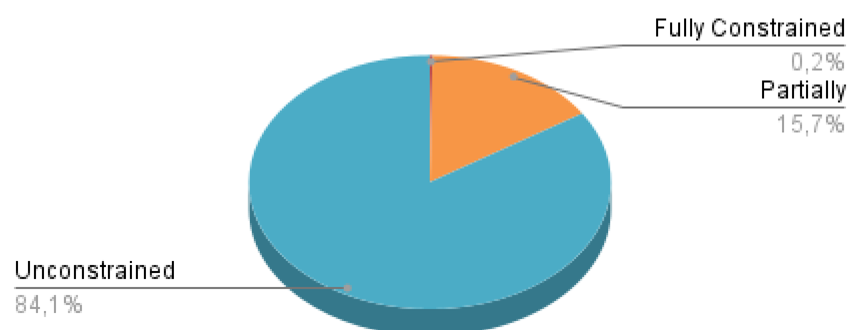

Figure 17. MSMEs' access to credit in South Africa. *Source: MSME Finance Gap Report, 2017*

The economic effects of financialization on the productive systems of Nigeria and South Africa have been varied, although generally damaging. Financialisation has taken place among both countries' large non-financial corporations, channelling investment into financial assets rather than productive investment in the real economy. Nonetheless, this phenomenon has been more prevalent among South African firms, while the Nigerian productive sector has had important credit access problems, especially in the informal and micro-dominated MSME sector. As a result, both countries have experienced stagnating gross capital formation, shrinking manufacturing sectors, and high levels of unemployment. As will be explored in the following section, Nigeria and South Africa had particularly diverse experiences of financialization concerning banking activities and households' involvement in the national financial system. Policies of financial liberalisation and deregulation, together with the withdrawal of social provisions, had distinct impacts on the operations of the banking sector and households. South African banks have been engaging significantly in lending to households, while Nigerian banks initially prioritised currency speculation and interest rate arbitrage, targeting households only recently (Isaacs, 2018; Udeogu, 2015).

6.3. Banks and households' financialisation deepening inequalities

South Africa's financial sector opened to the rest of the world in a considerably developed state as a result of financial closure during the period of sanctions against apartheid. Banks have expanded their balance sheets exponentially by lending to households (especially in the mortgage market), and thus benefiting from interest and commission income (Rodrigues

Teles Sampaio, 2014). This was enabled by increased short-term liquid instruments which expanded significantly owing to high interest rates and sterilisation operations implemented in response to highly volatile capital flows (Isaacs and Kaltenbrunner, 2018). Non-financial businesses' financialisation contributed further to bank credit expansion, as their highly liquid financial assets ended up in domestic banks (Karwowski, 2018). The expansion of internal debt, therefore, was not only a consequence of domestic policy choices that strengthened the financialization process but also pointed to the semi-peripheral position of the South African economy globally. The rising nature of short term money markets also explains the growing relevance of non-monetary institutions, such as mutual funds, in the overall evolution of the financial sphere (Rodrigues Teles Sampaio, 2014). Contrary to financialized advanced capitalist economies, investment banking income importance has diminished in South Africa, possibly due to stiff competition between national and regional banks and major international investment banks with a global reach. However, banks have expanded internationally, particularly to sub-Saharan Africa, to the point that foreign banks have been willing to acquire stakes in the oligopolistic banking sector after their ineffective entry in the 1990s (Rodrigues Teles Sampaio, 2014). As visible in figure 18, banks' cross-border liabilities and claims have grown consistently since the end of the 1990s, with a sharp rise at the beginning of the 2000s. Notwithstanding a decline in the period of the global financial crisis, banks' cross-border transactions remained at a remarkably higher level in the post-crisis years compared to the levels of the 1980s and 1990s.

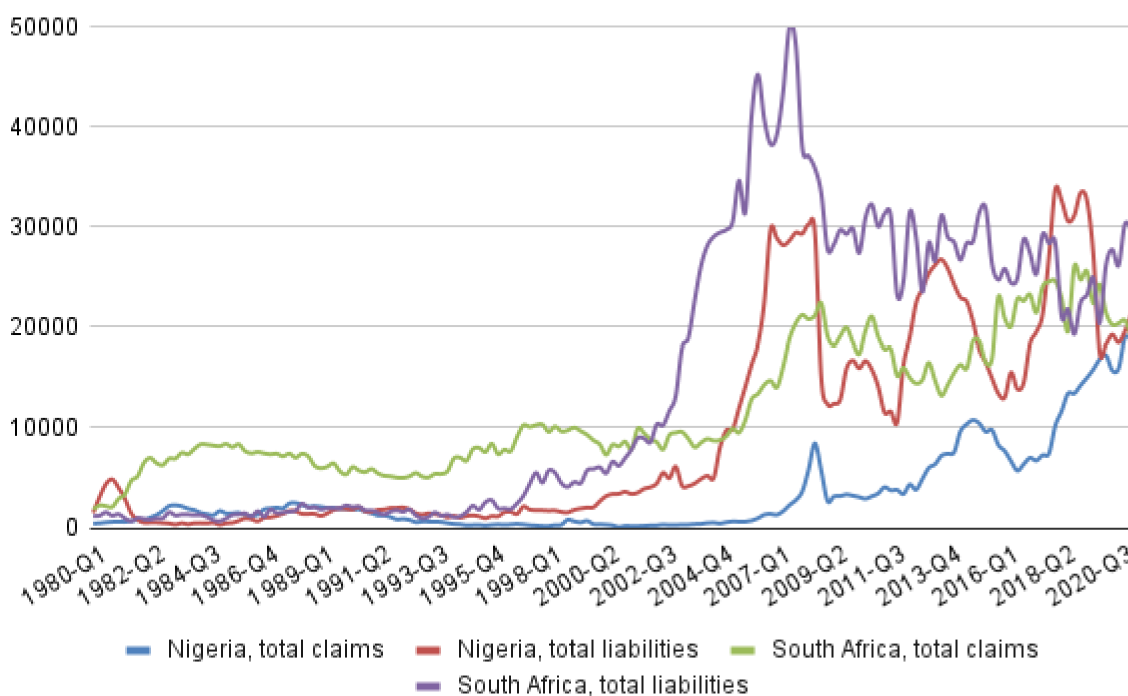

Figure 18. Banks' cross-border positions, Amounts outstanding/stocks, US$. *Source: IBS Locational Banking Statistics*

The developments following the first phase of financial liberalisation policies in Nigeria have been dramatically different than in South Africa. The aftermath of liberalisation policies in 1986 has caused a threefold increase in the number of banks, alongside growth in regard to the number of non-monetary financial institutions (Lewis and Stein, 1997). These actors

have lent to other financial institutions, the central state, and local governments while being involved in foreign exchange and interest rate arbitrage. This coincided with widespread fraud (Udeogu, 2015). These activities contributed to a banking bubble that eventually burst in the early 1990s. The lack of effective institutional and political structures, together with the macroeconomic instability induced by fluctuations in the oil market, have worsened financial instability (Lewis and Stein, 1997). As shown in figure 18, banks' interaction with foreign capital markets has followed South African trends, only a couple of years later. However, the countries' banking systems have been characterised by different depth and development, with commercial banks' loans and deposits surpassing 60% and 40% of total GDP in South Africa, while outstanding loans and deposits have been around 20% of total GDP during the last two decades in Nigeria (see figure 19).

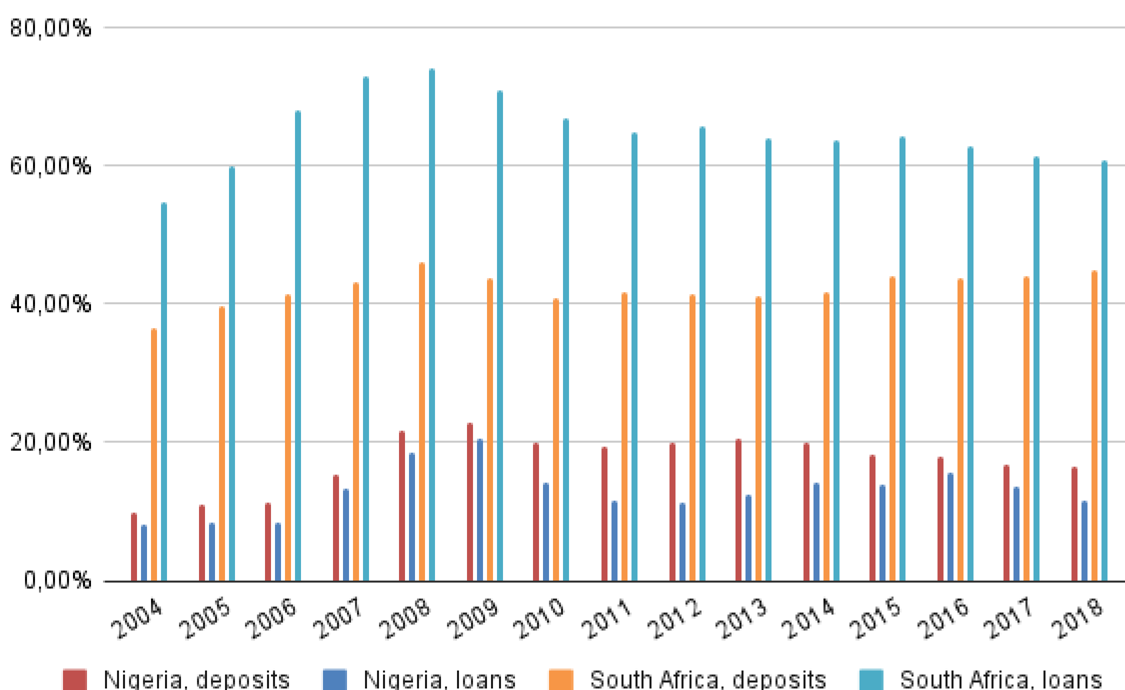

Figure 19. Outstanding deposits with and loans from commercial banks to GDP (%). *Source: World Bank Financial Inclusion Survey*

These aspects account for different stages of households financialisation in the countries analysed. Nigeria's banks have turned their financing towards households only when exchange rate trading started declining in profitability in the 2010s (Udeogu, 2015). Thereafter, bank lending has mostly targeted individuals with guaranteed incomes, i.e. governments and banks' workers, and asset holders with appealing returns, i.e. from stocks, land, oil blocks. Further, an increasing share of households' debt has been tied to the accumulation of finished imported goods (such as cars and other household appliances), further financial assets (mostly equities), and fixed assets such as land/buildings (i.e. mortgaged-backed lending) (Udeogu, 2015). On the other hand, South African banks focused their lending activities on consumer credit and household mortgage loans soon after liberalization, eventually resulting in house price inflation and domestic financial instability (Karwowski, 2012; Isaacs, 2015). As shown in figure 20, the share of household disposable income earmarked for debt payment has been increasing since the 2000s. This should be

considered alongside the high fees charged for financial transactions and assets (Rodrigues Teles Sampaio, 2014).

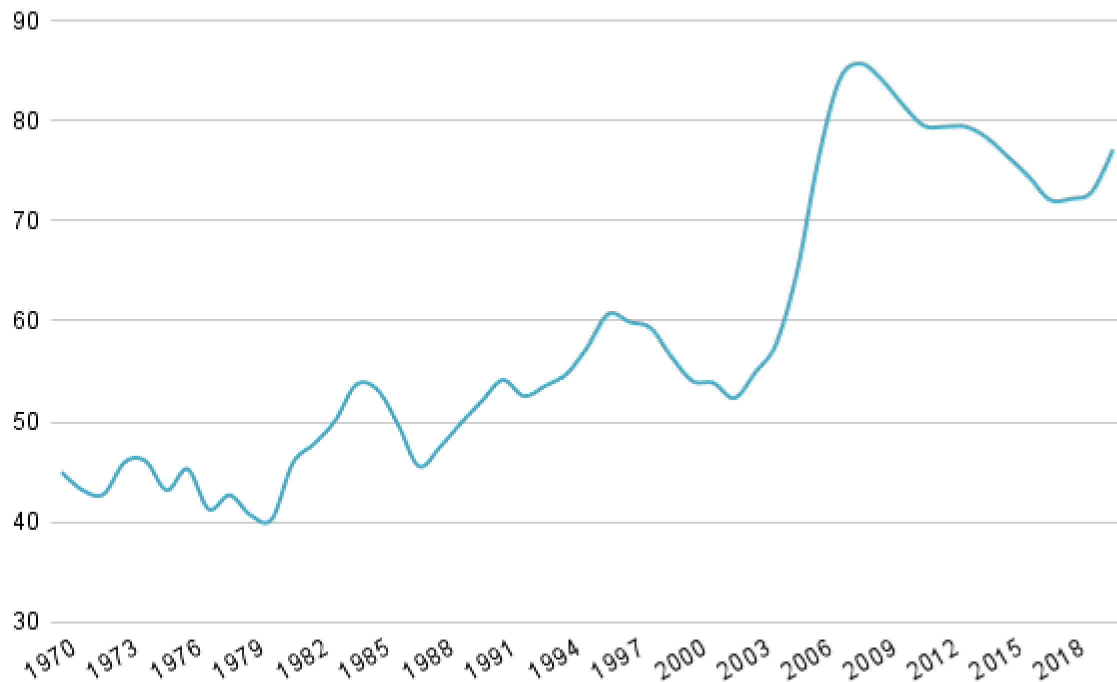

Figure 20. Households' debt to disposable income (%) in South Africa. *Source: SARB Online Statistical Query*

South Africa has indeed encountered a sharp expansion in household indebtedness at all levels of the income distribution. Households at the top engage in mortgage and consumption loans, while households at the bottom rely on credit for consumption due to unemployment and precariat (Newman, 2014). As confirmed by figure 21, mortgage advances have been a predominant share of households' financial liabilities, which explains the high price inflation in South Africa's real estate markets.

Overall the country has experienced a debt-driven growth trajectory for household consumption, instead of sustainable growth driven by investments to support employment (Newman, 2014). A noteworthy aspect of these developments for this paper is that South Africa's households have paid (and are still paying) extremely high interest rates and transaction fees compared to their counterparts in the developed countries (Rodrigues Teles Sampaio, 2014). In addition to causing social unrest among the poor and the working class, this aspect of household indebtedness reflects their subaltern positions vis-à-vis the oligopolistic retail banking sector. This asymmetry is exacerbated by the semi-peripheral position of the South African economy, victim of volatile portfolio flows which force authorities to undertake "prudent" macroeconomic policies, hence "ridiculously" high interest rates (Bond, 2005 p. 98, 2010; Isaacs, 2014 p. 32). Households' greater access to housing mortgage bonds and other forms of consumer credit notwithstanding, the overarching speculation in the housing market has amplified the unevenness of South Africa's geographical development, which stands at the basis of race and class segregation (Bond, 2010). As mentioned earlier, fundamental in this process have been non-financial

corporations' operations that channelled their liquidity in bank deposits, facilitating credit expansion and the consequent financial fragility in the country (Karwowski, 2018).

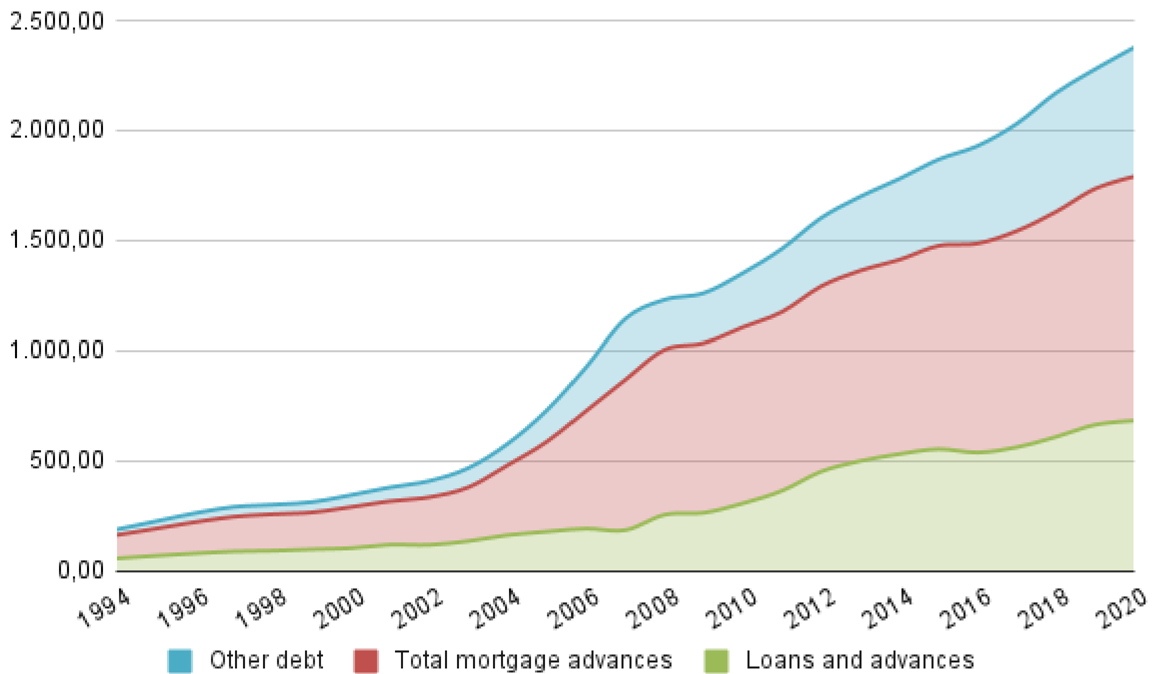

Figure 21. Households' financial liabilities in South Africa. *Source: SARB Online Statistical Query*

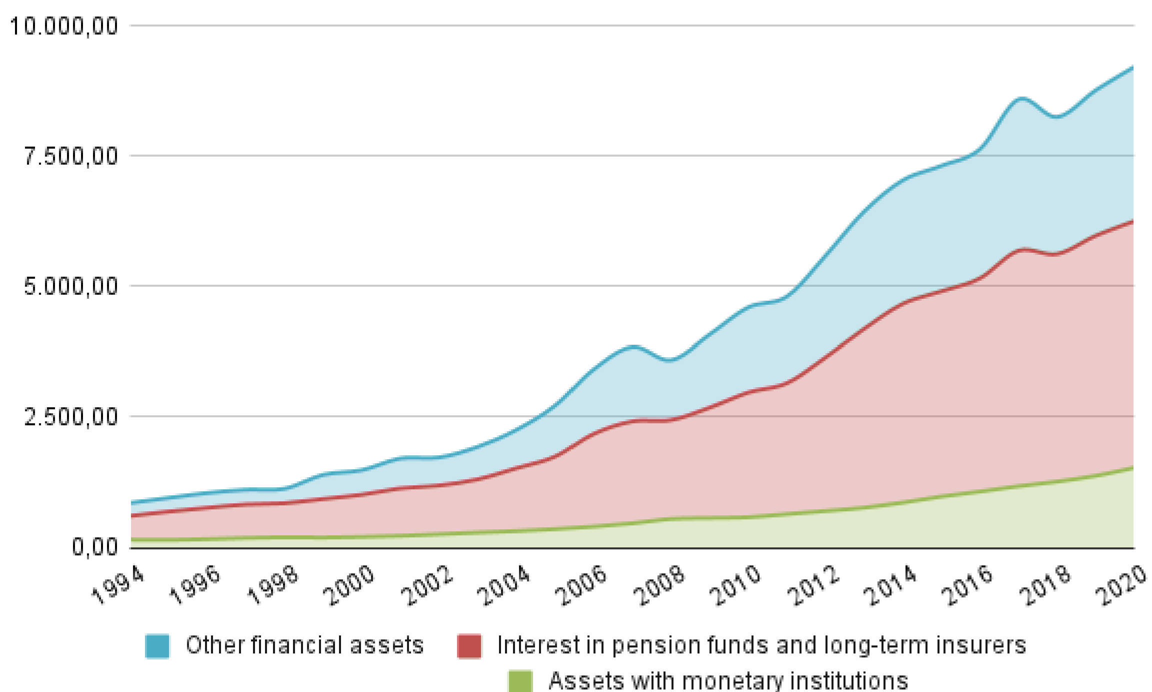

Figure 22. Households' financial assets in South Africa. *Source: SARB Online Statistical Query*

Since South Africa's financial liberalisation, households' financial assets have been on the rise as well. As figure 22 attests, a significant portion of households' financial assets has

consisted of interest in pensions funds and long-term insurers. However, the distribution of financial assets across the population has retained its unequal nature and has contributed to the exacerbation of inequality. Individuals at the top of the income distribution have seen their income from financial assets increase and have benefited from asset inflation. Therefore, the penetration of finance in households' everyday life, their inclusion in the financial system both as creditors and debtors, coupled with the employment effects of the financialization process, have considerably worsened income and wealth inequality, often across racial and gender lines (Newman, 2014, 2019; Valodia, 2001; Bateman, 2019).

Thus, a notable difference between the financialization experiences of the two countries has been the involvement of families in the financial sphere. In Nigeria, it was initially confined to a small elite with privileged access to banks, which engaged in exclusive and profitable trading and interest arbitrage at the expense of corporate credit resulting in stagnating or shrinking wages (Udeogu, 2015; Lewis and Stein, 1997). The penetration of finance into households' everyday life has been more evident in South Africa, likely because it began earlier than in Nigeria. Importantly, this phenomenon has a significant international dimension. As evident in figure 23, South Africa's households and non-profit institutions serving households (NPISHs) have held a strikingly high level of foreign liabilities, compared to Nigeria. On the other hand, households' cross border positions in terms of assets have been lower but still more relevant than in Nigeria. Finally, as observable in figure 24 depicting foreign currency-denominated loans advances and deposits in both countries, South Africa's households have experienced a higher level of foreign-denominated loans and deposits, with euro, pound sterling, and US dollar at the top. This aspect reflects once again the subordinate nature of households' financialisation in South Africa, which has spurred an unsustainable debt-led growth strategy with adverse consequences to the stability of the domestic financial system.

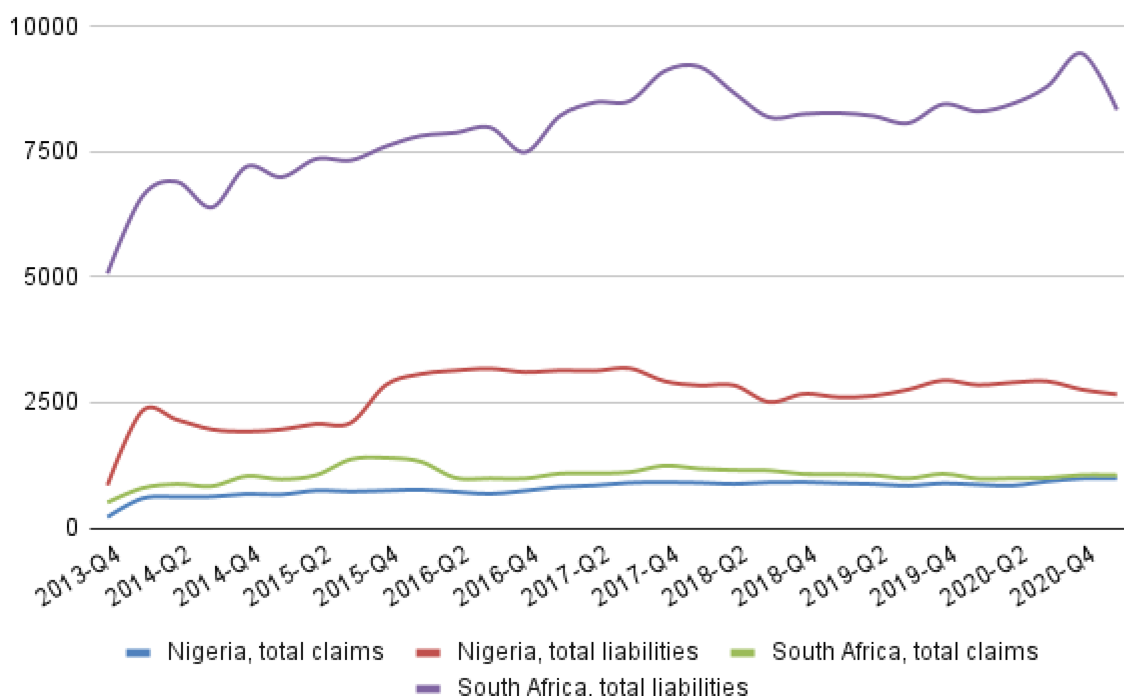

Figure 23. Households and NPISHs' cross-border positions. Amounts outstanding/stocks, US$.
Source: IBS Locational Banking Statistics

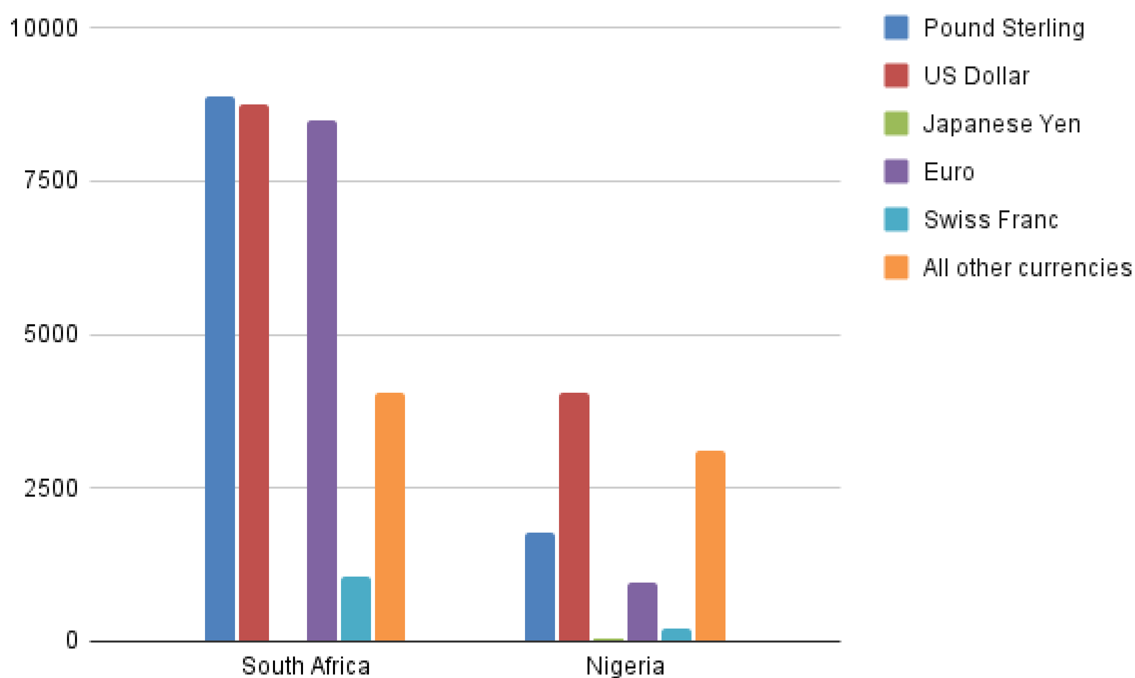

Figure 24. Households and NPISHs' loans and deposits by currency. *Source: BIS Locational Banking Statistics.*

7. Conclusion

As a result of their diverse historical backgrounds and domestic economic features, Nigeria and South Africa have experienced distinct financialisation and economic development paths. As discussed, Nigeria opened its capital account in 1986 but only saw an increase in capital inflows at the beginning of the 2000s. This is possibly due to the initial financial hardship that financial liberalisation entailed, as well as subsequent looser monetary policies in core countries. During the last two decades, its current account, as well as FDI and portfolio inflows have closely followed the movements in crude oil's market price. This aspect reflects the country's high level of dependence upon a single commodity's export price and the passive nature of its extraversion, which implies a problematic dependence on imports. Further, the Nigerian experience highlights how peripheral positions in global production chains enhance the adverse effects of financialisation on socioeconomic development by increasing capital flows volatility and vulnerability to terms-of-trade shocks. On the other hand, South Africa has encountered an increase in capital flows immediately after the opening of its capital account following the democratic elections of 1994. It has indeed opened up to the rest of the world with an internal financialisation process already underway, which was allowed by the period of financial closure during the sanctions against apartheid. International capital flows have proven to be highly volatile and implied a persistent financial account deficit during the last two decades. However, both South Africa's capital inflows and current account balance seem to have been independent of minerals and metals' export prices, confirming a higher level of industrialisation and export diversification as opposed to Nigeria. A common aspect of the countries' interaction with the international financial system has been a costly increase in foreign reserve accumulation as insurance against capital

flows' volatility. This market-centric policy choice, coupled with the sterilisation operations it entails, has overall deepened financialisation in the domestic economies.

International capital flows have inevitably spurred domestic financial systems development, although South Africa's system appears to be more developed both in terms of depth and size compared to Nigeria's. Nonetheless, both countries' engagement with international financial networks has sharply risen since the beginning of the 2000s. This engagement has been investigated by examining banks, enterprises and households' cross-border positions. Nigeria's banks have followed the trends of South Africa's concerning foreign assets and liabilities, albeit a couple of years later. Non-financial corporations appear to have engaged with international financial sectors acquiring foreign assets in both economies, with South Africa's level of assets being higher. Indeed, financialisation has taken place among both countries' large non-financial corporations, directing investment towards financial assets rather than long-term productive investment in the real economy. Nevertheless, this phenomenon has been more widespread in South Africa, while the Nigerian productive sector has been characterised by critical credit access problems, especially in the informal and micro-dominated MSME sector. The economic effects of financialization on the countries' productive systems have been varied, although generally damaging. Both countries have indeed experienced stagnating gross capital formation, shrinking manufacturing sectors, and high levels of unemployment.

A striking difference between the countries has been the financialization of households. South African banks have engaged considerably in households' lending, while Nigerian banks initially privileged currency speculation and interest rate arbitrage, turning to households only recently (Isaacs, 2018; Udeogu, 2015). Households' involvement in finance reflects an international and subordinate feature of South Africa's financialisation, as regards foreign institutions' involvement and foreign-currency denomination of households' liabilities. Further, the high level of interest rates and commissions households find themselves paying mirror their subaltern positions vis-a-vis both the domestic and international financial systems. Increasing household indebtedness coupled with the speculative activities in the housing market have led to social unrest among the poor and the working class, as well as have amplified the unevenness of South Africa's geographical development, which is the foundation of racial and class segregation (Bond, 2010). Finally, financialisation's reconstructing and employment effects, alongside households' greater involvement in the financial sector, have intensified intersectional inequality in South Africa, and further research is needed on these issues.

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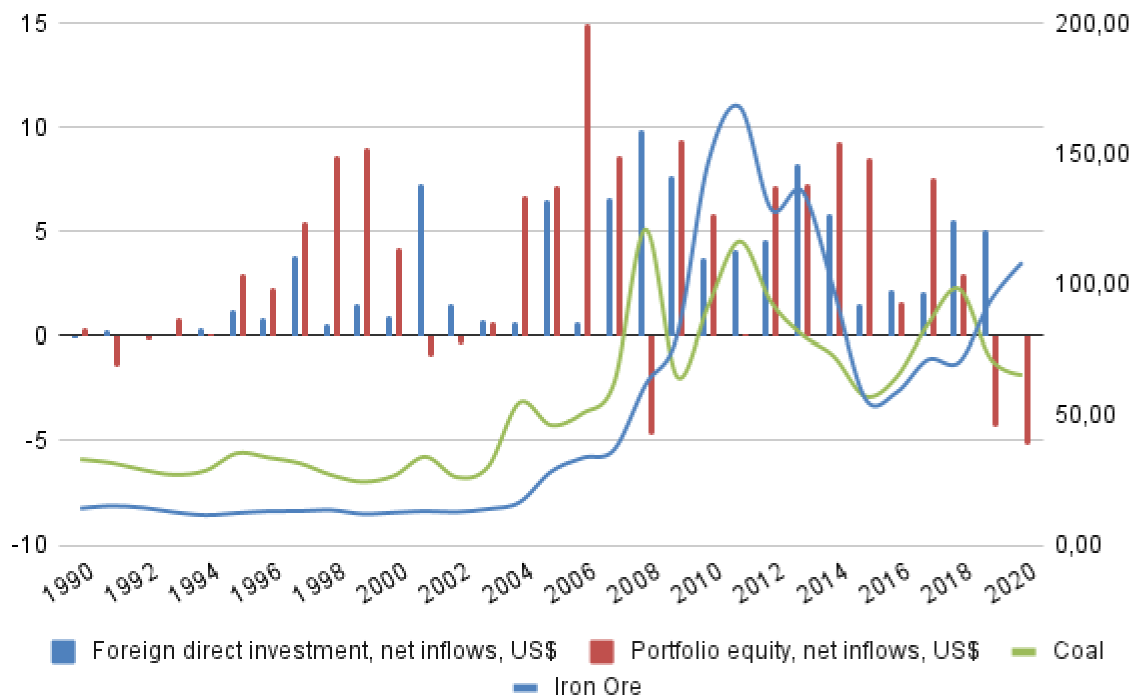
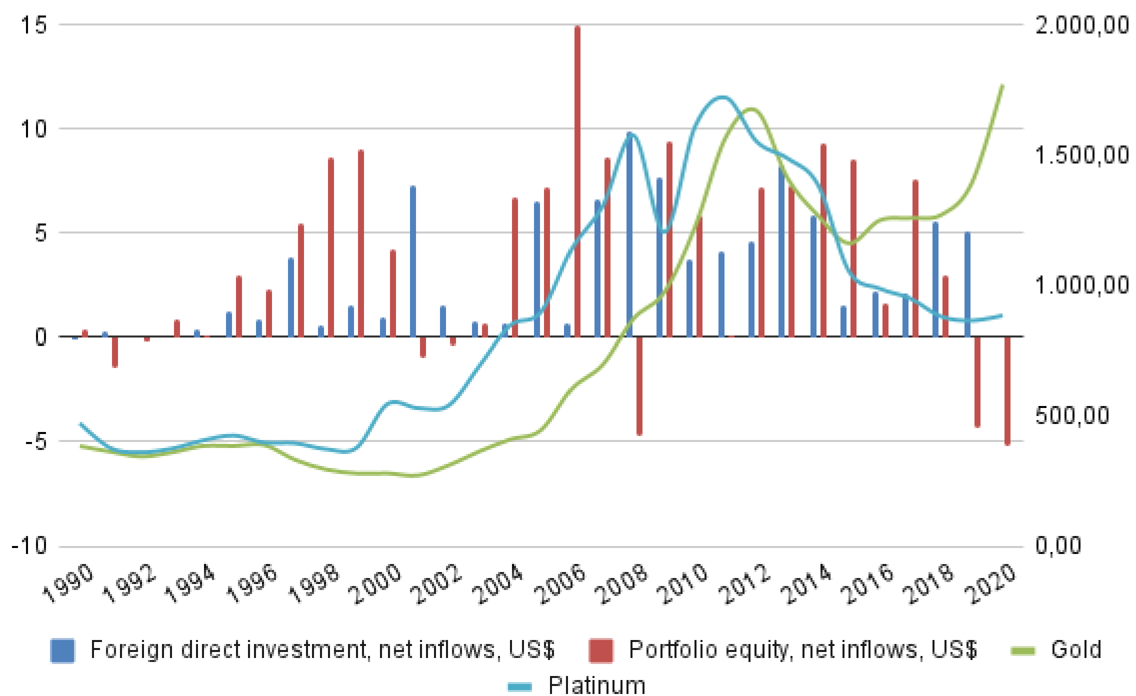
Appendix

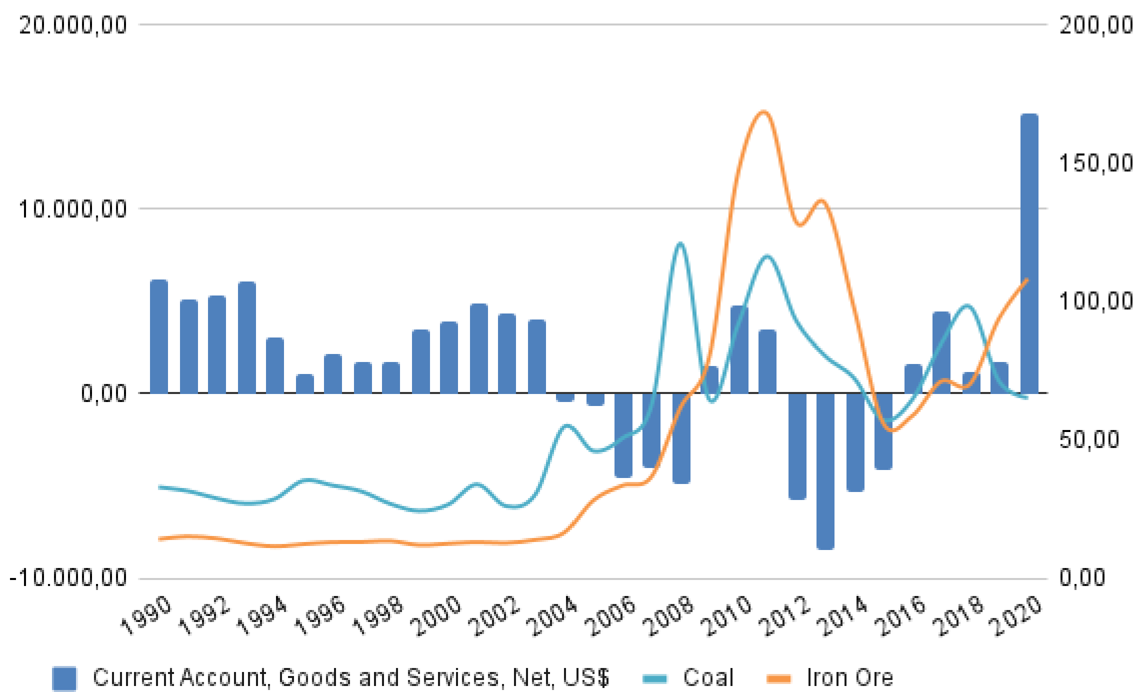
The following figures show South Africa's capital inflows, FDI and portfolio inflows, compared with the movements in coal and iron ore's market prices (figure 25) and in gold and platinum market prices (figure 26). Capital seems to have flown into the economy without closely following commodities' market prices, likely due to South Africa's exports diversification.

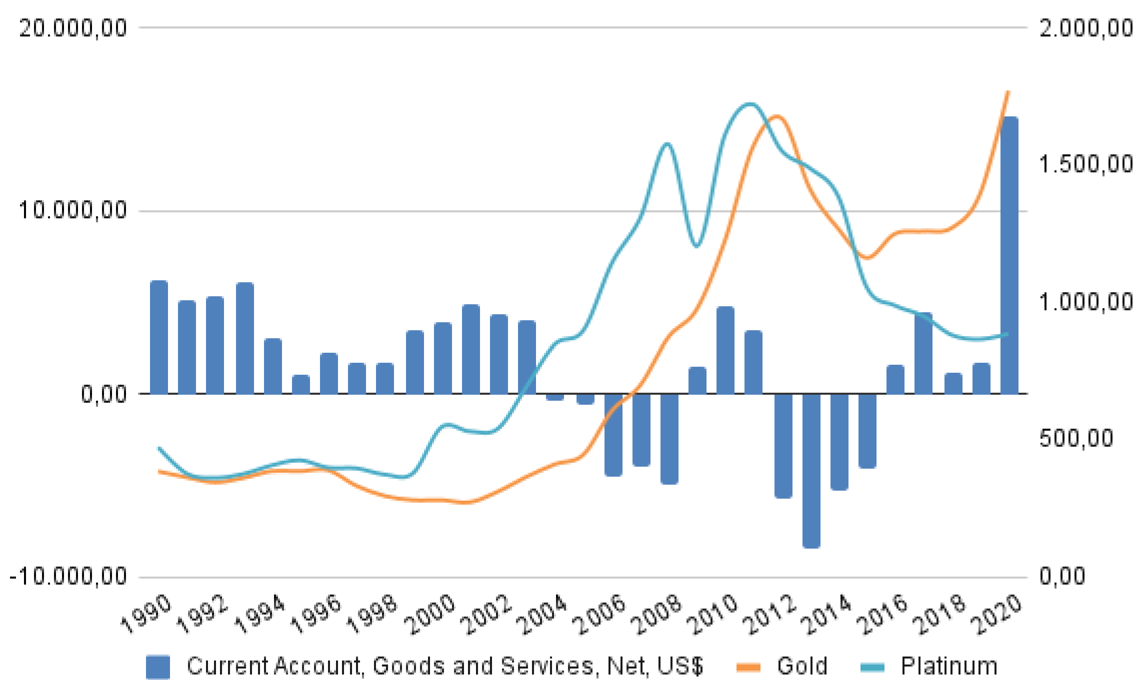




Figures 25, 26. South Africa's international capital inflows and commodity prices. *Source: IMF International Financial Statistics and Primary Commodity Price System.*

The following figures confirm South Africa's higher export diversification, showing current account movements compared with the changes in coal and iron ore's market prices (figure 27) and the evolution of gold and platinum market prices (figure 28).





Figures 27, 28. South Africa's current account and commodity prices. *Source: IMF IFS database and Primary Commodity Price System*.