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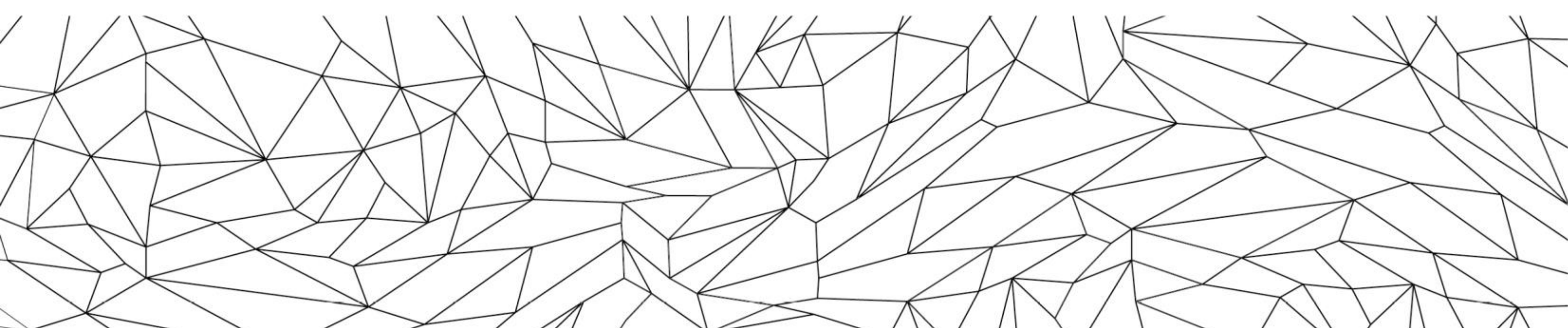

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Financialisation in Developing Countries: Approaches, Concepts, and Metrics

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ABSTRACT

Financialisation in developing countries has been extensively researched but its characteristic features and its relationship to developed countries remain unclear. Drawing on a review of the literature, this paper shows, first, that it should be distinguished from financial liberalisation and globalisation. Two fundamental theoretical approaches are subsequently considered, which establish its derivative character relative to developed countries, namely 'subordinate' and 'dependent' financialisation. The paper then demonstrates its characteristic features by examining the empirical literature, including the use of metrics. Financialisation in developing countries is highly variable and different from that in developed countries regarding the conduct of non-financial enterprises, banks, and households. It is also a source of economic vulnerability.

Keywords: development, financial integration, subordinate financialisation, dependent financialisation

JEL Classification: F02, F36, F63, F65, O16

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1. Defining financialisation in developing countries

The concept of financialisation is widely deployed in political economy and other social sciences, even though there is no general agreement regarding its meaning. The literature typically focuses on developed countries; research on developing countries is more limited and the meaning of the term is even less settled.[1] Since the global crisis of 2007-9, however, there has been rapid growth of theoretical and empirical work on developing countries.[2] By critically examining this recent body of research, light can be cast on the content and characteristic features of financialisation in developing countries.

A striking feature of the financialisation literature in general is that it covers a vast range of phenomena: from new financial instruments and institutions, to 'shareholder value orientation' of enterprises, to increasing volume of international capital flows, to penetration of finance in everyday life, and so on. The list could be easily extended, and the output is so vast and still growing that informative reviews, for instance, by van der Zwan (2014) and Davis and Kim (2015), become rapidly dated.

This great range indicates, first, that there is neither a standard nor a linear process of financialisation and, second, that the lack of a commonly agreed meaning for the term is not accidental. In practice financialisation exhibits considerable variation, and its content and form tend to differ across countries. There is no point in seeking a 'correct' universal definition by listing economic and social features of financialisation because these are inherently shifting and variable.

[1] We use 'developing' to refer to countries with a generally lower level of capitalist development and a relatively weak position in the hierarchies and institutions of the world economy.

[2] See, for instance, Bonizzi (2013) for an early and broad evaluation of theoretical and empirical work; Karwowski and Stockhammer (2017) offer an assessment of several empirical studies; Kaltenbrunner and Karacimen (2016) review studies of financialisation of the non-financial corporate sector. See also the extensive output of FESSUD (Financialisation, Economy, Society and Sustainable Development) on developing countries.

The recent literature on developing countries offers insight into these issues, even without addressing them directly. It has a theoretical strand (the smaller part by far) marked by two principal approaches claiming that financialisation in developing countries is either ‘subordinate to’ or ‘dependent on’ (and ‘peripheral to’) financialisation in developed countries. Fundamental to both subordination and dependence are international economic processes, particularly capital flows. The literature also has an empirical strand (the larger part by far) resting on the implicit assumption that financialisation in general has certain broad characteristics, which could be further explored in the context of developing countries. The multiplicity of form and the inherent variability of financialisation in developing countries is apparent in the empirical output.

To be more specific, financialisation in developing countries varies according to their highly diversified mode of integration in the world economy and variable domestic conditions. The significance of these factors is clear in relation to financial liberalisation and financial globalisation. Both of these terms are typically deployed by mainstream economists in analysing the profound transformation of the world economy since the 1970s, marked by increasing weight of finance. Political economists and other social scientists increasingly deploy financialisation to refer to the same transformation. However, the empirical studies on developing countries at times confound financialisation with financial liberalisation and financial globalisation. Distinguishing among the three is important to establishing the specific content of financialisation in developing countries.

To pursue the topic further, this article briefly draws similarities and distinctions with financial liberalisation and financial globalisation in Section 2. On this basis it considers the theoretical underpinnings of subordinate and dependent (or peripheral) financialisation in Section 3. Section 4 turns to the question of appropriate metrics for analysis of financialisation in developing countries. Section 5 then examines the empirical literature by focusing particularly on the conduct and financial practices of

non-financial corporations, banks, and households; fresh sources of vulnerability for developing countries are also identified.[3] Section 6 concludes.

2. Financialisation, financial liberalisation, and financial globalisation: Similarities and conceptual distinctions

Financial liberalisation is a major current of both economic theory and policy during last five decades accompanied by an enormous literature that cannot even be briefly summarised in this article. For our purposes it is sufficient to note a single indisputable aspect of financial liberalisation as a theoretical approach, namely that it has an irreducible element of prescriptive policy making. From its very beginning financial liberalisation was intended as a set of policies aiming to lift regulations on domestic financial systems controlling interest rates and volumes of credit. The expectation was that the removal of market 'distortions' would lead to improved growth outcomes in both developed and developing countries.[4] This prescriptive aspect is also present in empirical works of financial liberalisation that tackle the historical period since the 1970s.

Financial globalisation is closely associated with financial liberalisation. Interpreted as broadly as possible, the term refers to the growth of international capital flows and financial markets as well as the intensified presence of foreign financial institutions in domestic financial systems. Its commencement could be conveniently placed around the collapse of the Bretton Woods system in 1971-3 that facilitated the removal of financial controls.

The theoretical analysis of financial globalisation conveys more strongly the notion of a historical process occurring due to the profit-seeking actions of economic agents,

[3] The role of the state in financialisation of developing countries is undoubtedly important but occupies a rather minor part of the literature and is only partially referred to in the article.

[4] For a critical evaluation of the impact of financial liberalisation on development and growth, see Arestis and Demetriades (1996, 1997), Demetriades and Hussein (1996), Arestis (2004), Arestis and Sawyer (2005), as well as the recent comprehensive and informative review by Arestis (2016).

including financial institutions and non-financial enterprises. And yet, the relevant literature still contains a prescriptive component of economic policy. It is frequently expected, for instance, that a developing country could deepen its domestic financial markets through an inflow of foreign savings, while foreign banks and other financial institutions would help develop the domestic financial infrastructure. Freeing the capital account and opening the domestic economy to international capital flows would presumably contribute to a better development performance.[5]

In contrast, financialisation is typically considered as a social and economic process, rather than a prescriptive set of policies. There is no doubt that its emergence is related to financial liberalisation and financial globalisation, particularly the lifting of controls on capital flows and domestic finance in both developed and developing countries. However, its theoretical analysis is distinguished by focusing on changes in the structure and performance of economies reflecting the conduct and motives of economic agents (Epstein, 2005). In particular, while profit-making remains the dominant motive of productive and commercial enterprises as well as banks, the sources and methods of profit extraction acquire a stronger financial dimension resting on interest, fees, commissions, and capital gains. Financial profits characterise a financialised economy and their accrual has broader economic and social implications (Krippner, 2005; Lapavitsas, 2013).

In this light, financialisation is typically perceived as a negative occurrence for both developed and developing countries. Far from being conducive to better growth outcomes, it is associated with weaker investment performance and problematic private consumption sustained by debt. There is, however, an important distinction between developed and developing countries in this regard. Financialisation in developed countries is usually associated with domestic causes but in developing countries it is related primarily to capital account liberalisation and free capital flows.

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[5] For the implications of liberalising the capital account and financial globalisation from a mainstream perspective, see Mathieson and Rojas-Suarez (1992), Eichengreen *et al.* (1998), Kose *et al.* (2006), Mishkin (2006), Henry (2007), Kose *et al.* (2011). For sustained critical evaluations of liberalised capital flows, see Painceira (2009), Rodrik and Subramanian (2009), Stockhammer (2010), Bonizzi (2013), and Garcia-Arias (2015).

The negative outcomes for developing countries are exacerbated mostly due to volatility of capital flows and exchange rates.

There is, thus, a thematic overlap between research on financialisation in developing countries and research on financial globalisation. In the financialisation literature international capital flows are seen as diverse and following their own rhythms inducing boom-bust cycles in developing economies (Stockhammer, 2010; Akyuz, 2014, 2017; Tyson *et al.*, 2014; Tyson and McKinley, 2014). Similarly, some mainstream literature on financial globalisation, for instance, the seminal paper by Rey (2013), postulates the existence of global financial cycles marked by commonalities in the fluctuations of asset prices, gross capital flows, and leverage. These cycles reflect international financial integration and are ultimately related to the US monetary policy.

On the other hand, there is a sharp contrast regarding the entry of foreign financial institutions in developing countries, which is typically perceived in the financialisation literature as creating additional instability (Kaltenbrunner, 2010; Correa and Vidal, 2012; Correa *et al.*, 2012; Akyuz, 2014; Isaacs, 2015; Kaltenbrunner and Painceira, 2015, 2018; Isaacs and Kaltenbrunner, 2018). The formation of exchange rates, interest rates, asset prices, property prices, as well as the volume of capital flows, are increasingly determined by portfolio considerations of international investors (Kaltenbrunner and Painceira, 2015, 2018; Isaacs and Kaltenbrunner, 2018). The result is co-movement of financial prices across developing countries, causing further vulnerability of performance.

Summing up, despite similarities, financialisation in developing countries is distinct from financial liberalisation and financial globalisation. Above all, it is an evolving economic transformation reflecting the links between developing and developed countries, with the latter already well advanced on the path of financialisation. These links take primarily the form of capital flows and include the activities of foreign financial institutions. Financialisation is, thus, intrinsically asymmetric and intensifies economic vulnerability. Moreover, domestic financial institutions and non-financial corporations become increasingly implicated in international financial operations affecting their

motives and conduct in seeking profits, while domestic economic policies are subjected to the imperatives of international finance.

3. Subordinate and dependent (or peripheral) financialisation

The theoretical strand of the literature on financialisation in developing countries underlines its derivative character relative to developed countries and international financial processes. Two approaches stand out, which borrow conceptually from each other. First, that of subordinate financialisation, drawing heavily on Marxist political economy, with post-Keynesian insights. Second, that of dependent (or peripheral) financialisation, based on the Regulationist School, with Marxist and post-Keynesian influences.

It should be stated at the outset, however, that several works do not fall neatly within this categorisation. Garcia-Arias (2015), while acknowledging the Regulationist term of dependent financialisation, opts for 'centre-periphery financialisation', which he sees as emerging in developed countries but spreading to developing countries through foreign economic agents and capital flows. Rodrigues *et al.* (2016) refer to features of 'semi-peripheral financialisation' in the Portuguese economy by underlining its position between the core and the periphery. Gabor (2013) also uses the term 'dependent financialisation' in her work on the Romanian economy, though along different lines to the Regulationist view. For her, transnational banks and other non-resident financial actors create networks of cross-border interconnectedness leading to dependent financialisation, which further includes new organisations of financial markets and actors characterised by interconnectedness, state agency and fragility. In this connection mention should also be made of Akkemik and Ozen (2014) who deploy an institutional and historical analysis, investigating particularly the institutional and macroeconomic determinants of financialisation of large non-financial corporations in Turkey.

Still other studies draw on Marxist, post-Keynesian, or Regulationist arguments without necessarily subscribing to the 'subordinate' or 'dependent' approaches. Marxist analyses typically focus on the national and international aspects of capitalist accumulation to investigate the symptoms of financialisation in developing countries, for instance, household indebtedness, and transformation in the provision of public goods and services (Ergunes, 2009; Ashman *et al.*, 2011; dos Santos, 2013; Karacimen, 2014, 2015; Bayliss *et al.*, 2016; Fine *et al.*, 2016). Post-Keynesian works often consider the implications of growing financial incomes and profits by deploying the concept of the 'rise of the rentier', while analysing changes in the conduct of non-financial corporations (Demir, 2007, 2009a, 2009b; Correa *et al.*, 2012). Other work in the broad Keynesian tradition stresses the negative implications of financialisation in developing countries by addressing its support for export-led growth (Levy-Orlik, 2012, 2013, 2014). Further still, Paulani (2010) and Araujo *et al.* (2012) have drawn on the Regulationist framework to analyse Brazilian financialisation.

Note, finally, that several papers address the 'varied' or 'variegated' nature of financialisation, a notion that is important to analysing financialisation in developing countries. Lapavitsas and Powell (2013) put forth the term 'financialisation varied' to underline substantial differences of financialisation across developed countries. 'Variegated financialisation' was also proposed to indicate the pervasive but diverse forms of financialisation in Europe (Brown *et al.*, 2015, 2017). Karwowski *et al.* (2017) further elaborated variegated financialisation by empirically analysing a group of developed countries and underlining non-simultaneous, distinct financialisation processes across economic sectors. Lai and Daniels (2017), moreover, used the term to discuss developing countries, particularly Singapore.

These provisos notwithstanding, subordinate and dependent (or peripheral) financialisation are the most distinctive theoretical approaches in the literature. They are considered in further detail in the rest of this section to help specify the content of financialisation in developing countries.

3.1. Subordinate financialisation

The subordinate financialisation view is associated with the Marxist framework proposed by Lapavitsas (2009a, 2011, 2013) treating financialisation as a set of underlying tendencies regarding the conduct of non-financial enterprises, banks, and households. The term was originally proposed by Powell (2013), who analyses financialisation as an epochal transformation occurring in the relations between these key economic agents and locates it within the contemporary world market.[6] Powell relates subordinate financialisation to the historic Marxist concept of imperialism, adapted to current international conditions. Financialisation in the periphery maintains some of the fundamental tendencies observed in the core, but assumes a distinctive subordinate form shaped by imperial relations.

Nonetheless, there are fine nuances to usage of the term. Thus, Powell (2013), Lapavitsas (2013) and Bonizzi *et al.* (2019) deploy it directly, whereas Kaltenbrunner and Painceira (2015, 2018) prefer 'subordinated nature of financialisation' or sometimes 'subordinated nature of international financial integration'.[7] Choi (2020) and Fernandez and Aalbers (2020) use 'subordinate' and 'subordinated financialisation' terms interchangeably, underlining the hierarchical international monetary system and relating financialisation in the Global South to the Global North. Furthermore, there are earlier studies that stress the presence of hierarchical international economic relations similar to subordinate financialisation but without using the term directly (Lapavitsas, 2009b, 2011; Painceira, 2009; Kaltenbrunner, 2010).

The emphasis on the hierarchical structure of the international monetary and financial system has facilitated fruitful interaction with post-Keynesian theory, relating particularly to the notion of the hierarchy of currencies (Kaltenbrunner, 2010; Bortz and Kaltenbrunner, 2018; Kaltenbrunner and Painceira, 2018). Marxist political

[6] Powell also drew on the work of Research on Money and Finance (RMF) in the early 2010s, a research network based at SOAS, University of London, that produced sustained output on financialisation as well as on the European Union. See https://www.soas.ac.uk/rmf/papers/ and https://erensep.org/category/publications/

[7] Note that Lapavitsas, Kaltenbrunner, Powell, and Painceira were members of RMF.

economy also stresses the hierarchical role of '(quasi) world money' in international monetary and financial transactions (Painceira, 2009; Lapavitsas, 2013; Powell, 2013).

According to this approach, currencies bear a liquidity premium depending on their position in the global hierarchical structure. Countries with currencies toward the bottom of the hierarchy have to pay higher interest rates as well as providing lenders with higher dividends and capital gains to offset heightened risk perceptions. Furthermore, these countries rely on shorter-term capital flows and are usually forced to borrow primarily in foreign currency (the 'original sin'), although there are exceptions (Isaacs and Kaltenbrunner, 2018; Kaltenbrunner and Painceira, 2018). Even if developing countries manage to borrow internationally in their own currency, however, they are still open to the adverse implications of volatile capital flows and exchange rate movements, as witnessed in Brazil (Paulani, 2010; Kaltenbrunner and Painceira, 2015, 2018).

For the subordinate financialisation strand, in sum, international capital flows and the prominent role of the US dollar as (quasi) world money have major policy implications and give rise to new internationally exploitative relations for developing countries (Painceira 2009). Domestic monetary policy is widely marked by inflation targeting that also aims to attract capital flows; consequently, interest rates are kept high, creating an upward bias for the domestic currency. Flows are largely short-term and volatile, leading to new forms of external vulnerability, often independent from domestic economic conditions and associated particularly with abrupt interruptions or flow reversals. Given the increasingly short-term nature of financial operations, trade in financial assets, including in the currencies of some developing countries, has become widespread, leading to inherently more fragile patterns of interaction as financial profits increasingly rely on rising asset prices. (Kaltenbrunner and Painceira, 2015; Isaacs and Kaltenbrunner, 2018).

A further crucial aspect of subordinate financialisation is the accumulation of international reserves, creating a channel between the international and the domestic

dimensions of financialisation. Developing countries are forced to accumulate currencies at the high end of the hierarchy (mainly the US dollar) to finance current account deficits but also to confront intensified volatility of capital flows and sudden exchange rate movements. The accumulation of foreign exchange reserves carries huge costs for developing countries (Rodrik 2006). Reserves earn little or no interest compared to the high interest paid on domestic instruments, while also causing substantial social costs (Painceira, 2009). Thus, reserve accumulation has major implications for economic development (Cruz and Walters, 2008), and moreover, its effectiveness in the face of crises is highly debatable (Kaltenbrunner, 2010; Akyuz, 2012, 2014; Garcia-Arias, 2015; Kaltenbrunner and Painceira, 2018).

Furthermore, to offset the domestic implications of reserve accumulation and comply with inflation targeting regime, central banks of developing countries deploy sterilisation operations, typically based on public debt instruments. The associated operations allow domestic banks to expand their balance sheets, thus contributing to the growth of domestic debt and promoting financialisation (Painceira, 2009; Garcia-Arias, 2015; Isaacs 2015; Isaacs and Kaltenbrunner, 2018; Kaltenbrunner and Painceira, 2018; Fernandez and Aalbers, 2020).

Finally, an important extension of the subordinate financialisation strand concerns non-financial corporation, particularly the internationalisation of production. Financialisation of non-financial corporations has been a staple of the literature, mostly in relation to risk diversification and profit making via financial transactions, which are addressed in Section 5 of this paper. Going beyond these issues and building on the work of Powell (2013), Bonizzi *et al.* (2019) focus on capitalist accumulation and the internationalisation of production, circulation, and finance. They consider global value chains and global production networks, seeking to associate subordinate financialisation with the subordinate position of developing countries in international production.

This work is still at a very preliminary stage, but it is nonetheless important because it seeks to connect financialisation in developing countries with global production. There

is abundant research claiming that there is a relationship running from financialisation to production which often creates problems of weak growth and instability. There is also research that investigates the impact of the internationalisation of production on financialisation, particularly through the reorganisation of production by multinational enterprises (Milberg, 2008; Milberg and Winkler, 2010). For Milberg (2008), the globalisation of production has helped sustain financialisation of US non-financial enterprises by ensuring higher profits and thus releasing resources for financial investment. However, the impact of the global reorganisation of production on the financialisation of developing countries remains unexplored. Establishing clear links between, on the one hand, subordinate financialisation and, on the other, the subordinate position of developing countries in international production would be a decisive breakthrough in this field.

3.2. Dependent (or peripheral) financialisation

The approach of dependent financialisation also postulates that financialisation in developing countries has emerged in connection with financialisation in developed countries. It draws on the analysis of the Regulation School and refers to the Latin American Dependency School, identifying financialisation in the periphery as a new type of dependency (Becker *et al.*, 2010; Becker and Jager, 2012; Becker and Weissenbacher, 2015).[8]

It is well known that Regulation theory distinguishes among several regimes of capitalist accumulation, namely productive/financialised, intensive/extensive, and introverted/extraverted. These regimes are accompanied by different modes of regulation relating to the institutions and policies that maintain social and economic reproduction. In this multidimensional structure, the productive/financialised accumulation axis is assigned primacy of place in view especially of the great weight of financialised accumulation in the last few decades. For Becker *et al.* (2010) financialised accumulation cannot be completely detached from accumulation in

[8] Weissenbacher (2018) discusses the relevance of dependency theory in Europe.

production, despite possessing relative autonomy, because financial assets and credits ultimately represent claims on surplus produced outside the financial sphere.

According to this approach, the exhaustion of productive accumulation in core countries resulted in a search for new areas of accumulation and new locations for investment (Becker, 2013, 2016). Financial investment became the main area of capitalist accumulation and peripheral economies emerged as attractive investment destinations. Financialisation in developing countries is analysed by stressing the importance of the mode of regulation in determining the trajectory of financialisation, and also considering the axis of internationally exposed and land-rent protected accumulation within these countries (Becker *et al.*, 2010; Becker and Jager, 2012; Becker, 2013, 2016; Becker and Weissenbacher, 2015).

Thus, financialisation in the periphery was spurred by financialisation in core countries, with a significant role played by international capital flows. The shift from the Fordist to the finance-led accumulation regime in developed countries, which was originally proposed by the Regulation School, for instance, Aglietta ([1976] 2000) and Boyer (2000), eventually led to a further shift from peripheral Fordism to peripheral financialisation. That shift was accompanied by the specific modes of regulation imposed by the IMF and the World Bank (Becker *et al.*, 2010). At the same time, variable domestic economic and political conditions induced significant variation in the pace and form of developing country financialisation (Becker *et al.*, 2010; Becker, 2013; Becker and Weissenbacher, 2015). Moreover, several (semi-) peripheral countries in Europe exhibited peculiar features of financialisation, often associated with the mechanisms of the European Union (Becker *et al.*, 2010; Becker and Jager, 2012).

Dependent financialised accumulation generally has an extraverted character. However, while some core economies are marked by export-oriented active extraversion, peripheral economies usually exhibit passive extraversion with high import dependency (Becker *et al.*, 2010; Becker, 2013). Dependent extraversion is further characterised by inflation targeting, which assumes high interest rates and an

overvalued local currency to attract capital inflows, thus encouraging domestic credit expansion (Becker *et al.*, 2010; Becker and Weissenbacher, 2015). Moreover, large current account deficits and rising external debt due to passive extraversion contribute to constrained development of the productive sector and a tendency to crisis among developing countries.

It should also be noted that the Regulationist approach differentiates between financialisation based on fictitious capital (primarily securities) and financialisation based on interest-bearing capital (primarily loans) (Becker *et al.*, 2010; Becker, 2013). Financialisation in the periphery tends to be based primarily on interest-bearing capital. It is credit-based financialisation that encourages lending to households for consumption and housing in several peripheral economies, thus stimulating growth of the real estate and construction sectors. This 'mass-based' financialisation that relies on free capital flows could still turn into financialisation based on fictitious capital, for instance, through the privatisation of pension systems in developing countries (Becker *et al.*, 2010).

Summing up, it is clear that both of the main theoretical approaches distinguish financialisation in developing countries from financial liberalisation and financial globalisation. Subordination or dependence are historical economic processes that emerge due to hierarchical relations in the world economy as well as due to the prior financialisation of developed countries. Both approaches stress the importance of liberalised capital flows, reserve accumulation, and foreign financial institutions. It is also clear, nonetheless, that the role of multinational enterprises and the connection between international production and domestic financialisation have not been sufficiently investigated.

4. The problem of metrics in empirical work

Empirical studies comprise the bulk of the literature on financialisation in developing countries and cast light on several complex issues, including some of those mentioned

above. Nonetheless, authors often draw on the broad debates on financialisation assuming implicitly that the process of financialisation is essentially the same in both developing and developed countries. This could lead to mapping the symptoms of developed onto developing countries without noting the specific character of the latter. At times, the term financialisation is deployed to refer to aspects of international finance in capitalist development that are of very long standing and do not necessarily indicate financialisation.

The lack of conceptual clarity in empirical work can lead to inappropriate use of metrics, often substituting for conceptual analysis. It is instructive, therefore, briefly to consider the use of metrics in relation to financialisation. There is no doubt that standard metrics are necessary, for instance, bank assets and stock market capitalisation relative to GDP, the volume and composition of international capital movements, and changes in the stock of debt. However, without a clearly specified analytical framework, it is impossible to tell whether these metrics actually demonstrate the existence of financialisation in both developed and developing countries.

Perhaps the most important point in this connection is that plain growth of the financial sector, even its rapid expansion, is not evidence of financialisation but simply an integral aspect of maturing capitalism. Similarly, plain accumulation of debt by a developing country could indicate nothing more than adopting financial liberalisation or participating in financial globalisation. There is no magic combination of numbers capable of demonstrating the existence of financialisation in the absence of a theoretical framework.

Moreover, standard metrics could create difficulties even in mainstream analysis of financial liberalisation and financial globalisation. Financial development, for instance, is conventionally measured by the size of the banking system (e.g., total assets, private sector credits, deposits) or of the money supply (M2 and M3) expressed as share of GDP; it could also be measured by the ratio of stock market capitalisation to GDP, or by price-based indicators, such as interest rate spreads (King and Levine,

1992, 1993; Levine and Zervos, 1998; Von Furstenberg and Fratianni, 1996). However, as financial systems evolve, indicators that draw primarily on conventional features of the financial sector might become inadequate (Cihak *et al.*, 2012). Intensified securitisation practices, for instance, make the size of stock market relative to GDP an inappropriate indicator of financial evolution. Further compounding these problems, the paucity of primary data in many developing countries is a major constraint on empirical research.

Use of metrics without a clear theoretical framework can create confusion between financialisation, financial liberalisation, financial globalisation, or even plain development of the financial sector. Tyson and McKinley (2014), for instance, in their extensive study of financialisation in seventeen developing countries, use measures associated with financial liberalisation and financial globalisation without specifying why these relate to financialisation as a distinctive process. Karwowski and Stockhammer (2017), in their valuable study assessing empirical research, deploy a range of indicators to capture financialisation in developing countries relative to the UK and USA, but it is not immediately apparent that the metrics reflect anything other than financial liberalisation. Still other empirical works investigate the symptoms and problematic outcomes of financialisation by using standard metrics but leave doubt on the specific content of financialisation in each case, for instance, Gabor (2013) on Romania, Bahce *et al.* (2015) on Turkey, Isaacs (2015) on South Africa, and Levy-Orlik (2013) on Mexico.

Developing countries do not follow the same trajectory of financialisation as developed countries, and both are subject to considerable variation. It is possible for developing countries to exhibit symptoms of financialisation while lacking significant financial deepening or extensive financial innovation (Gabor, 2013; Powell, 2013; Levy-Orlik; 2013, 2014). They might even lack substantial financial deregulation and liberalisation of the capital account (Karwowski and Stockhammer, 2017). Moreover, the implications of new financial instruments, institutions, and practices have to be taken into account, again within a clear theoretical framework. As Karwowski (2018) argues, financial investment *per se* was not a new practice for non-financial corporations in

South Africa; what matters for financialisation are the new ways of investing in financial assets and the changes in portfolio compositions.

Several empirical works are aware of the analytical specificity of financialisation and the need for appropriate metrics. Thus, in her seminar paper, Krippner (2005), classified the indicators of financialisation as activity-based and accumulation-based, claiming that the latter provide a clearer picture. Cibils and Allami (2013) adapted Krippner's categorisation to analysis of financialisation in Argentina. Similarly, Becker *et al.* (2010) distinguished between indicators appropriate for, respectively, fictitious-capital-based and interest-bearing-capital-based financialisation. Lapavitsas (2013) considered an array of measurements of indebtedness of corporates, banks and households as well as of financing of investment specific to financialisation. Powell (2013), addressing developing countries, deployed a range of measures, including debt and financing of investment, to capture the peculiarities of the relationship between non-financial corporations and banks. Lapavitsas and Mendieta-Munoz (2018, 2019) focused on empirical analysis of financial profitability as a key specific indicator of financialisation. Most of this output, however, is on developed countries and there is a clear need to extend it to developing countries.

It was shown in the preceding sections that financialisation is an inherently critical concept, drawing on a broad historical and social understanding of capitalist economies. The metrics deployed should reflect its character and, moreover, for developing countries they should also correspond to its international and asymmetric nature. For that, it is necessary to have a clear theoretical framework. This point is demonstrated in the following section through closer examination of the empirical literature.

5. Empirical analysis of financialisation in developing countries: Non-financial corporations, banks, and households

Most of the extensive empirical literature relates to the conduct of non-financial corporations, banks, and households. The literature also focuses on the implications of financialisation for the vulnerability of developing countries. These issues are considered in this section.

5.1 Non-financial corporations and banks

Empirical work indicates that during the last two decades non-financial corporations in developing countries have become more closely implicated with the formal financial system, acquiring capacity to participate in complex financial operations in both domestic and international markets. Furthermore, higher returns on financial activities and the quest for protection from macroeconomic uncertainty and risks have encouraged non-financial corporations to reallocate funds toward financial investments (Demir, 2007, 2009a, 2009b; Farhi and Zanchetta Borghi, 2009; Kalinowski and Cho 2009; Paulani, 2010; Rethel, 2010; Araujo *et al.*, 2012; Karwowski, 2012, 2018; Levy-Orlik, 2012; Seo *et al.*, 2012; Luiz Rossi, 2013; Powell, 2013; Tan, 2014; Akkemik and Ozen, 2014; Isaacs, 2015).

The financial asset holdings of non-financial corporations in developing countries, at least at the early stages of their financialisation, tend to comprise public debt securities which offer high and risk-free rates of return as well as liquidity (Erturk, 2003; Demir, 2009a, 2009b; Araujo *et al.*, 2012; Cibils and Allami, 2013; Akkemik and Ozen, 2014). Becker (2016) calls this feature of financialisation of developing countries 'state-centred' and claims that it has a detrimental impact on public capacity and productive investment.

However, financial deregulation and the vast expansion in global liquidity frequently entail profound changes in the operations of both non-financial corporations and banks

in developing countries. Large non-financial enterprises tend to give an international dimension to their assets and liabilities, domestic financial institutions acquire substantial exposure to international financial markets, and financial interactions between domestic and international agents become stronger, pointing to alignment of interests as well as conflicts. The role of international banks and institutional investors is vital in this connection (Farhi and Zanchetta Borghi, 2009; Cho, 2010; Correa and Vidal, 2012; Correa *et al.*, 2012; Tyson and McKinley, 2014; Kaltenbrunner and Painceira, 2015, 2018; Bowman, 2018; Isaacs and Kaltenbrunner, 2018).

There has also been a significant increase in mergers and acquisitions targeted at developing countries, mostly in the financial sector and in privatised public enterprises and banks. The acquisition of private productive facilities has remained more limited (Becker *et al.*, 2010; Cho, 2010; Correa and Vidal, 2012). Indeed, Garcia-Arias (2015) argues that foreign direct investment in developing countries is largely the result of financialisation of core countries and does not represent the transfer of significant industrial and technical capability. Furthermore, the ownership of productive assets by multinational corporations appears to have encouraged a shift toward shareholder value, equity financing, and taking advantage of financing opportunities in international markets. This shift has had negative implications for productive investment, including a reduction of funding for research and development (Kalinowski and Cho, 2009; Seo *et al.*, 2012; Isaacs, 2015; Bowman, 2018; Isaacs and Kaltenbrunner, 2018).

Despite these changes, there remain profound qualitative differences in the financing operations of non-financial corporations in developing compared to developed countries. The transformation and development of financial markets in developing countries do not reveal a definitive shift from bank-based to market-based finance in developing countries (Erturk, 2003; Rethelk, 2010; Cibils and Allami, 2013; Levy-Orlik, 2013, 2014, 2016; Isaacs, 2015; Karwowski, 2018), though there are possible exceptions (Rethel, 2010; Karwowski and Stockhammer, 2017).

To be more specific, in developing countries, only the largest enterprises are able systematically to use market-based finance, and much more modestly than their

counterparts in developed countries (Rethel, 2010; Powell, 2013; Bowman, 2018). The bulk of the non-financial corporate sector simply does not have the option of obtaining finance in domestic or international markets, instead relying on retained earnings, funds from parent enterprises or affiliates, and credits from the banking system (Rethel, 2010; Levy-Orlik, 2012, 2016; Powell, 2013; Kaltenbrunner and Painceira, 2018; Gezici *et al.*, 2019). The changes that have taken place during the last two decades notwithstanding, borrowing from the banking system remains essential for non-financial corporations in several developing countries (Ergunes, 2009; Levy-Orlik, 2012; Bahce *et al.*, 2015; Isaacs, 2015).

Nevertheless, the banking sector of developing countries has generally been transformed by acquiring new functions, including extensive household lending. Foreign banks have played a significant role in this process, thus encouraging financialisation. There is a wealth of country analyses that substantiate this point, for example, Brazil, Mexico, India and the Philippines (Lapavitsas and dos Santos, 2008), Turkey (Ergunes, 2009; Karacimen, 2014), South Korea (Cho, 2010), Eastern Europe (Gabor 2010, 2013; Cetkovic 2011), Latin America (Correa and Vidal, 2012), Mexico (Correa *et al.*, 2012; Levy-Orlik 2013; Powell, 2013), Argentina (Cibils and Allami, 2013), Brazil and Mexico (dos Santos, 2013). Foreign banks play a crucial role in facilitating international borrowing and lending households, even becoming dominant in some developing countries (Lapavitsas and dos Santos, 2008; Cho, 2010; dos Santos, 2011, 2013; Correa *et al.*, 2012; Levy-Orlik, 2013). They have also been pivotal to channelling the impact of the global crisis onto developing countries (Farhi and Zanchetta Borghi, 2009; Cho, 2010; Correa and Vidal, 2012; Correa *et al.*, 2012).

The activities of foreign banks have encouraged domestic banks to transform their operations in the direction of financialisation, also by taking advantage of the adoption of new technology (Lapavitsas and dos Santos, 2008; Farhi and Zanchetta Borghi, 2009; Kaltenbrunner, 2010; Dos Santos, 2011, 2013; Correa and Vidal, 2012; Cibils and Allami, 2013; Karacimen, 2014). Domestic banks now take part in international financial operations, particularly in providing foreign funding for domestic non-financial corporations. They even engage in proprietary trading abroad, obtain finance from

international financial institutions, and seek profits from fees and commissions through securitisation, financial asset trading, and insurance. Not least, domestic banks have gradually begun to engage in substantial lending to households in the form of mortgages and consumer loans including extensive growth of credit card use (Lapavitsas and dos Santos, 2008; dos Santos, 2013; Powell, 2013; Karacimen, 2014). This is an important part of financialisation in developing countries discussed in detail in the following section.

5.2 Households

The empirical literature on developing countries pays considerable attention to households being drawn into the networks of private finance and becoming an integral part of financialisation (Ergunes, 2009; Becker *et al.*, 2010; Gabor, 2010, 2013; Rethel, 2010; Ashman, *et al.*, 2011; Painceira, 2012; Ashman and Fine 2013, dos Santos, 2013; Karacimen, 2014; Choi, 2018; Karwowski, 2018). Important in this connection is deregulation of labour markets and sustained downward pressure on real wages making it harder for households to maintain living conditions. Decline in public provision of essential goods and services, including housing, education, and health, as well as the privatisation of pensions systems, have further contributed to household financialisation.

The result is growing household indebtedness, a hallmark of financialisation in both developed and developing countries. For Becker *et al.* (2010), burgeoning household debt has supported aggregate demand by counterbalancing low wages. Credits to households have also sustained consumer-led recoveries from crises in developing countries, for instance, in Malaysia (Rethel, 2010) and Turkey (Karacimen, 2014).

Both domestic and foreign banks engage in household financialisation, spurred by free capital flows and reflecting the asymmetric character of financialisation in developing countries (Lapavitsas and dos Santos, 2008; Cho, 2010; dos Santos, 2011, 2013; Gabor, 2013; Karacimen, 2014; Choi, 2018). The literature further stresses that the

global expansion of capital flows has often led to credit and housing booms in developing countries (Akyuz, 2012; Ashman and Fine, 2013; Orhangazi and Ozgur, 2015; Becker, 2016; Karwowski, 2018).

Note that the growth of household debt in developing countries might be remarkable but, with few exceptions, the ratio of household debt to GDP is below that of developed countries. The larger part of household debt in developing countries comprises unsecured consumer debt, often linked to credit card use, as, for instance, in Turkey (Karacimen, 2015). This is in sharp contrast to developed countries in which mortgage debt predominates reflecting different modes of provision of housing that often rely on private finance.

However, in some developing countries, for instance, South Africa and South Korea, there are also high levels of mortgage debt (Cho, 2010; Ashman *et al.*, 2011; Ashman and Fine, 2013; Isaacs, 2015; Choi, 2018; Karwowski, 2018). Its counterpart tends to be rising prices of housing and real estate, which assume the character of financial assets (Ashman *et al.*, 2011; Bahce *et al.*, 2015; Karwowski, 2018; Fernandez and Aalbers, 2020). When housing becomes a financial asset in developing countries, it is usually held mainly by higher income groups (Celik *et al.*, 2016; Choi, 2018). Housing loans are not typically directed to the low-income strata, and publicly funded low-cost housing has been heavily commodified, paving the way for deeper insertion of housing into the networks of financial markets (Isaacs, 2015).

In this respect, there is an evident affinity with the distinction drawn by Becker *et al.* (2010) and Becker and Weissenbacher (2015) between 'elite financialisation', which refers to the bourgeois and upper middle-class strata, and 'mass-based' or 'popular financialisation', related to broader strata of the population. Due to relatively low incomes and income inequality in developing countries, increases in household holdings of financial assets tend to be limited to the higher income groups, which benefit from high domestic financial returns (Becker *et al.*, 2010; Rethel, 2010; Powell, 2013; Karacimen, 2014; Choi, 2018). The inclusion of poorer households in formal finance under these conditions is mostly through debt and has a rather compulsory

character (Becker *et al.*, 2010; Rethel, 2010; Correa *et al.*, 2012; Garcia-Arias, 2015; Lavinas, 2018). Furthermore, as Ashman *et al.* (2011) point out, in some countries large parts of the population remain without access to financial services, and such exclusion is often based on racial or ethnic discrimination.

Drawing households into the formal financial system in these complex ways has provided banks with new sources of profit through fees and commissions as well as interest income. A substantial part of household income in developing countries is directed toward interest on loans and various financial expenses, leading to further adverse implications for income distribution (Ergunes, 2009; dos Santos, 2013; Karacimen, 2014; Choi, 2018). Lapavitsas (2009a, 2013) proposed the term 'financial expropriation' to capture the transfer of value from households to the financial system, particularly to the banking sector. This is a form of exploitation that goes beyond the sphere of production and characterises the era of financialisation.

Finally, household financialisation is inevitably limited in poor developing countries with very low household incomes. Nonetheless, financialisation also has an impact on microfinance targeting the poorest layers of the population (Lavinas, 2018). It appears that microfinance increasingly assumes the form of an investible asset, reflected in the gradual rise of microfinance investment funds (Aitken, 2010, 2013; Tyson, 2012; Mader, 2014).

5.3 Intensified vulnerability

The financialisation of non-financial corporations, banks, and households in developing countries has resulted in additional economic vulnerability, particularly in the context of international capital flows. A significant part of the empirical literature is concerned with locating and assessing the sources of this vulnerability.

An important factor of vulnerability is the macroeconomic framework that frequently accompanies financialisation in developing countries. To create a favourable

environment for international capital flows, countries often adopt inflation targeting, which typically requires high domestic interest rates. The result is sustained overvaluation of the exchange rate and a pressing requirement to hold large international currency reserves. The conduct of both financial and non-financial enterprises is significantly affected in this context (Isaacs, 2015; Deniz and Marshall, 2018; Isaacs and Kaltenbrunner, 2018).

To be more specific, high domestic interest rates constrain productive investment (Demir 2007, 2009a, 2009b; Isaacs, 2015; Karwowski, 2012). High borrowing costs also encourage large financial and non-financial enterprises to borrow more cheaply abroad. Ergunes (2009) and (Bahce *et al.*, 2015) argue that the funds could potentially be invested in productive capacity. However, they are also used for the 'carry trade', that is, borrowing abroad to make domestic financial investments, thus earning profits from the interest rate spread and from the upward bias in the exchange rate (Demir, 2009a, 2009b; Becker *et al.*, 2010; Painceira, 2011, 2012; Orhangazi and Ozgur, 2015; Kaltenbrunner and Painceira, 2015, 2018; Isaacs and Kaltenbrunner, 2018). Moreover, the upward bias in the exchange rate encourages imports of capital and intermediary goods at lower cost, thus improving the profitability of non-financial corporations but potentially weakening domestic productive capacity (Garcia-Arias, 2015). Cheaper imports also contribute to lowering real wages, thus further improving profitability.

There are obvious risks in these practices. At the same time, access to international markets remains more difficult, expensive and volatile compared to private enterprises in developed countries, which can often borrow in their own currencies. Vulnerability is further intensified by the volatility of capital flows and the attendant fluctuations in exchange rate and financial asset prices. The great volumes of private debt denominated in foreign currencies exacerbate vulnerability by linking the risks of the productive sector to those of the financial sector. Becker *et al.* (2010) deploy the term 'dollarised financialisation' to denote the tendency to accumulate loans denominated in US dollars (or euros).

Currency and maturity mismatches in the assets and liabilities of financial and non-financial enterprises are a source of profound instability, which can be triggered by a sudden stop of capital flows and the depreciation of local currency (Erturk, 2003; Orhangazi and Ozgur, 2015). Even when enterprises are able to borrow internationally in their own currency, the currency mismatch does not disappear but is simply transferred onto the balance sheet of the lender, thus remaining a source of instability (Hoffman *et al.*, 2020). Moreover, Akyuz (2018) points to the deficit in net international investment income for developing countries and claims that it reflects the excess of external liabilities compared to external assets but also the lower return on foreign assets compared to liabilities. Thus, some developing countries with positive net foreign asset positions, such as China, register deficits in net international investment income.

Vulnerability is also potentially increased by the altered formation and co-movement of financial prices that affect developing countries, particularly prices in commodities markets. This is a substantial and broadly separate part of the empirical literature focusing on the 'financialisation of commodities markets' through the introduction of ever more complex financial instruments, with major implications for commodity producing developing countries (UNCTAD, 2011). Summarily put, the formation of prices in commodities markets have become detached from the fundamental determinants of demand and supply and reflect the global liquidity cycle (Nissanke, 2012).

The microstructure of commodities markets is important in this respect, particularly the emergence of 'index traders', who passively buy and do not arbitrage in the markets, thus potentially leading to excessive price fluctuations driven by the availability of global liquidity. There is a lively empirical debate on this issue (Irwin and Sanders, 2012; Henderson *et al.*, 2015; van Huellen, 2020). The impact of excessive price fluctuations could be severe on commodity producers in developing countries, entailing revenue losses for exporters and escalating costs for importers (Akyuz, 2014).

6. Conclusion

This paper examines financialisation in developing countries by critically assessing the recent theoretical and empirical literature, a large field that cannot be summed up in a few paragraphs. The breadth of the subject calls for careful selection of topics, inevitably side-lining some important issues, for instance, the role of the state, partly because they are not very prominent in the literature.

It was shown that financialisation comprises underlying tendencies, emerging and evolving under specific historical, spatial, political, and institutional conditions. Financialisation also results in uneven and distinct patterns operating with varying time scales and assumes different trajectories in developing compared to developed countries. In these respects, the concept of financialisation in developing countries belongs to political economy and is distinct from both financial liberalisation and financial globalisation.

The theoretical part of the literature is still at an early stage and contains two prominent approaches, namely subordinate and dependent (or peripheral) financialisation. They share considerable common ground and stress the derivative character of financialisation in developing countries relative to already financialised developed countries. Fundamental to subordination or dependence are international capital flows, the global hierarchy of currencies, foreign financial institutions, and large international reserves. Considerable conceptual advances have been made in this regard, although much remains to be done, including on the relationship between global (subordinate) productive relations and (subordinate) financialisation.

The largest part of the literature is empirical, casting light on a host of issues relating to the conduct of non-financial enterprises, banks, and households in developing countries. It was shown that there are substantial differences with financialisation in developed countries, particularly with regard to the overall character of financial systems, which remain largely bank based. Still, the opening to international capital

flows and the growing presence of foreign financial institutions have facilitated the growth of foreign debt by the private sector, thus fostering domestic financialisation and creating new mechanisms of financial profit making.

The changes in the conduct of private agents together with the macroeconomic environment accompanying financialisation have created additional sources of vulnerability for developing countries. These call for closer investigation, particularly in connection with the role of the state in facilitating financialisation in developing countries, and this is work that also remains to be done.

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