Routledge
Taylor & Francis Group

International Review of Applied Economics

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/cira20

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To cite this article: Costas Lapavitsas & Aylin Soydan (2022): Financialisation in developing countries: approaches, concepts, and metrics, International Review of Applied Economics, DOI: 10.1080/02692171.2022.2052714

To link to this article: https://doi.org/10.1080/02692171.2022.2052714

Published online: 17 Mar 2022.

INTERNATIONAL REVIEW OF APPLIED ECONOMICS
https://doi.org/10.1080/02692171.2022.2052714

Financialisation in developing countries: approaches, concepts, and metrics

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ABSTRACT

Financialisation in developing countries is the subject of an expanding literature but its characteristic features and its relationship to developed countries remain unclear. Reviewing the literature, this paper shows that financialisation in developing countries should be distinguished from financial liberalisation and financial globalisation. Furthermore, its character is partly derivative from financialisation in developed countries, as is confirmed by two theoretical approaches, related but different from each other, namely 'subordinate' and 'dependent' financialisation. By further reviewing the empirical literature, the paper also shows that financialisation in developing countries is highly variable and different from that in developed countries regarding the conduct of non-financial enterprises, banks, and households. Moreover, the literature addresses several sources of vulnerability for developing countries relating to financialisation. Finally, there are significant literature gaps, above all, the connection between financialisation and the globalisation of production as well as the role of the state.

ARTICLE HISTORY

Received 26 September 2021
Accepted 21 January 2022

KEYWORDS

Development; financial liberalisation; financial globalisation; subordinate financialisation; dependent financialisation; financialisation metrics; developing countries

1. Introduction

The literature on financialisation covers a vast range of phenomena, such as the functioning of new financial instruments and institutions, the financial profits earned by non-financial corporations, the role of 'shareholder value' in enterprise organisation, the penetration of everyday life by finance, and so on. The output continues to grow so rapidly that even informative reviews, as for instance by Van der Zwan (2014) and Davis and Kim (2015), could soon become dated.

The great range of the literature indicates that there is neither a standard nor a linear process of financialisation. Even if there are common underlying tendencies, financialisation exhibits considerable variation in practice, while its content and form differ across countries. The great range also corresponds to the lack of agreement for the very meaning of the term. There is no 'correct' universal definition of financialisation that one could derive by listing its economic and social features because these are inherently shifting and variable.

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It is striking, consequently, that this extensive literature has paid comparatively little attention to developing countries, with even less agreement on what financialisation might mean in the context of developing countries.[1] However, since the global crisis of 2007–9 there has been rapid growth of theoretical and empirical work in this field.[2] By critically examining the recent body of research, light can be cast on the content and characteristic features of financialisation in developing countries.

To be more specific, this recent literature has a theoretical strand 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, underpinned by hierarchical economic relations and the actions of international financial institutions. In these respects, financialisation in developing countries is derivative of that in developed countries.

The literature also has a substantial empirical strand that is largely unconcerned with the theoretical aspects of financialisation. Rather, it relies on the implicit assumption that financialisation has certain general characteristics which could be further explored and tested in the context of developing countries. From the empirical work it follows that financialisation in developing countries exhibits great multiplicity of form reflecting the highly diversified mode of integration of developing countries in the world economy as well as variable domestic conditions. This variability is evident in terms of the conduct of enterprises, banks, and households in developing countries.

The structure of this article relates to these considerations. Section 2 briefly draws similarities and distinctions between financialisation in developing countries, financial liberalisation and financial globalisation. On this basis, Section 3 considers the theoretical underpinnings of subordinate and dependent (or peripheral) financialisation. Section 4 turns to the empirical literature by, first, examining the use of metrics in the analysis of financialisation in developing countries. The section subsequently focuses on the conduct of non-financial corporations, banks, and households, while identifying sources of vulnerability for developing countries. Section 5 concludes.

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

Before engaging with the literature, it is necessary to consider some conceptual distinctions regarding the content of financialisation in developing countries, particularly as the latter could be conflated with financial liberalisation and financial globalisation.

Financial liberalisation is a major current in mainstream economic theory and policy of the last five decades resulting in an enormous literature that could not be even briefly summarised in this article.[3] It is manifest, nonetheless, that financialisation in both developed and developing countries is related to financial liberalisation. Financialisation would have been inconceivable without, for instance, the lifting of regulatory controls on flows of credit and interest rates.

At a further remove, however, financial liberalisation has an irreducible prescriptive element which is absent from the literature on financialisation. From the very beginning financial liberalisation was intended as a set of policies to lift regulatory controls on domestic financial systems. The expectation was that the removal of these 'market distortions' would lead to improved growth outcomes in both developed and developing countries. This element is also present in empirical works on financial liberalisation tackling the period since the 1970s. There is nothing similar in the literature on financialisation: even when it treats financialisation as the result of government policies, it tends to be highly critical.

The deeper roots of this difference could be glimpsed by considering financial globalisation, which has also generated a significant literature in mainstream economics. As for financialisation, it is incontestable that financial globalisation presupposes financial liberalisation. However, financial globalisation is a distinct concept that typically refers to the growth of international capital flows and financial markets as well as to the intensified presence of foreign financial institutions in domestic financial systems. Its commencement could be placed around the collapse of the Bretton Woods system in 1971–3 and the ensuing gradual removal of capital controls.

Tacitly or explicitly, financial globalisation relates to an underlying change in the character of international finance during this period, going beyond the plain description of international transactions, markets, and institutions. Summarily put, financial globalisation corresponds to a historic shift from (broadly) 'development finance' (i.e. flows that were frequently official and aimed to fill the gap between domestic saving and investment) to 'portfolio finance' (flows that are typically private and emanate from the portfolio decisions of financial institutions in a global search for yield).[4] This historic change has taken place due to the profit-seeking actions of economic agents, including financial institutions and non-financial enterprises.

At the same time, the literature on financial globalisation 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 domestic economy to international capital flows would presumably contribute to a better development performance.[5]

The literature on financialisation has a partly shared focus with both financial liberalisation and financial globalisation, including the lifting of controls on capital flows and on domestic finance. Authors who deploy the concept of financialisation typically analyse changes in the structure and performance of economies reflecting the conduct and motives of economic agents (Epstein 2005). Furthermore, the literature largely presupposes the existence of financial liberalisation, and there is an evident similarity with financial globalisation, since the conduct and motives of economic agents that the literature typically considers broadly correspond to balance sheet decisions driven ultimately by yield-seeking.

But the conceptual differences are also stark. The literature on financialisation seeks expressly to identify the social, economic, and institutional determinants of the conduct of economic agents. After all, balance sheet decisions by various agents are taken in an economic and social context that also shapes the implications of these decisions. Broadly speaking, financialisation analysis treats the profit-making decisions of financial and non-financial enterprises as characteristic of the economy as a whole. Entire economies become financialised, and some authors even consider economies to be 'finance-dominated' or 'finance-led'.[6] The sources of profit and its methods of extraction acquire a strong financial dimension resting on interest, fees, commissions, and capital gains. Financial profits mark the tempo of economic activity, and their accrual has broad economic and social implications (Krippner 2005; Lapavitsas 2013).

In this light, financialisation is overwhelmingly 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, private consumption sustained by debt, and a tendency to create instability and crises. There is certainly no prescriptive policy element in the literature, other than to put a stop to, or reverse, financialisation.

To be sure, some writings on financial globalisation also consider global instability associated with commonalities in the fluctuations of asset prices, gross capital flows, and leverage; such instability reflects international financial integration and the monetary policies of developed countries.[7] Yet, for our purposes, even this feature of the mainstream literature helps accentuate the most distinctive aspect of financialisation in developing countries, namely its 'subordinate to' or 'dependent' character relative to developed countries. The economic, social, and institutional context within which several developing countries enter the path of financialisation is, in important respects, derivative of processes and policies in developed countries. Above all, it is associated with capital account liberalisation and the profit-seeking decisions of financial and non-financial enterprises with a global reach.

In sum, financialisation in developing countries overlaps with but remains distinct from financial liberalisation and financial globalisation. It is an evolving economic and social transformation reflecting the subordinate position of developing countries in the world economy. Its derivative character is associated with international capital flows and the activities of foreign financial institutions. Domestic financial institutions and non-financial corporations in developing countries become increasingly implicated in international financial operations altering their own motives and conduct, while domestic economic policies are subjected to the imperatives of international finance. This intrinsic asymmetry exacerbates economic vulnerability. The review of the literature in the rest of the article substantiates these points and brings to the fore the distinctive character of financialisation in developing countries.

3. Subordinate and dependent (or peripheral) financialisation

The literature contains a limited but notable range of theoretical contributions underlining the derivative character of financialisation in developing countries relative to developed countries and to 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 with theoretical concerns do not fall neatly within these two currents. 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, Santos, and Teles (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', but differently from the Regulationist current, referring to Nolke and Vliegenthart's (2009) dependent variety of capitalism in post-socialist European countries. In her work on the Romanian economy, she suggests that transnational banks and other non-resident financial actors create cross-border networks leading to dependent financialisation, which further includes new organisations of financial markets and actors characterised by interconnectedness, state agency and fragility. 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, Fine, and Newman 2011; Dos Santos 2013; Karacimen 2014, 2015; Bayliss, Fine, and Robertson 2016; Fine, Bayliss, and Robertson 2016).

Post-Keynesian works on developing countries 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, Vidal, and Marshall 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). Furthermore, Paulani (2010) and Araujo, Bruno, and Pimentel (2012) draw 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 theorising financialisation in developing countries. Lapavitsas and Powell (2013) put forth the notion of 'financialisation varied' to underline substantial differences of financialisation within developed countries. 'Variegated financialisation' was proposed to indicate the pervasive but diverse forms of financialisation in Europe (Brown, Passarella, and Spencer 2015; Brown, Spencer, and Passarella 2017). Karwowski, Shabani, and Stockhammer (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, specifically Singapore.

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

3.1. Subordinate financialisation

The subordinate financialisation view is associated with the Marxist framework proposed by Lapavitsas (2009a, 2011), Lapavitsas and Powell (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 analysed financialisation as an epochal transformation occurring in the relations between these key economic agents and locates it within the contemporary world market.[8] Powell relates subordinate financialisation to the historic Marxist concept of imperialism, adapted to current international conditions. Financialisation in developing countries retains some of the fundamental tendencies observed in developed countries, but assumes a distinctive subordinate form shaped by imperial relations.

Nonetheless, there are nuances to the usage of the term. Thus, Powell (2013), Lapavitsas (2013) and Bonizzi, Kaltenbrunner, and Powell (2019) deploy it directly, whereas Kaltenbrunner and Painceira (2015, 2018) prefer 'subordinated nature of financialisation' or sometimes 'subordinated nature of international financial integration'.[9] Choi (2018) 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 significance of hierarchical international economic relations but without using the term 'subordinate' (Lapavitsas 2009b, 2011; Painceira 2009; Kaltenbrunner 2010).

The hierarchical structure of the international monetary and financial system is an integral element of 'subordinate' financialisation. Marxist political economy stresses the dominant role of '(quasi) world money' in international monetary and financial transactions (Painceira 2009; Lapavitsas 2013; Powell 2013). The emphasis on the hierarchical prevalence of world money has facilitated fruitful interaction with post-Keynesian theory, relating particularly to the notion of global currency hierarchy (Kaltenbrunner 2010; Bortz and Kaltenbrunner 2018; Kaltenbrunner and Painceira 2018).

Specifically, currencies are considered to bear a liquidity premium depending on their position in the global hierarchical structure. Countries with currencies at the lower end 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).

Therefore, for the subordinate financialisation strand, 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 (Painceira 2009). Domestic monetary policy is widely marked by inflation targeting, which 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. 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. Reserves are instrumental in creating a channel between the international and domestic dimensions of financialisation. To offset the domestic implications of reserve accumulation and comply with the inflation targeting regime in monetary policy, 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; Lapavitsas 2013; Garcia-Arias 2015; Isaacs 2015; Isaacs and Kaltenbrunner 2018; Kaltenbrunner and Painceira 2018; Fernandez and Aalbers 2020).

It is well-established that 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).

Finally, an important extension of the subordinate financialisation strand concerns non-financial corporations, 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 4 of this paper. Going beyond these issues and building on the work of Powell (2013), Bonizzi, Kaltenbrunner, and Powell (2019) focus on the internationalisation of capitalist 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. The authors point particularly to export-led growth in developing countries, which is consistent with the subordinate position of these countries within global networks.

This work is still at a 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 of developed countries (Milberg 2008; Milberg and Winkler 2010, 2013; Auvray and Rabinovich 2019). According to this view, 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 largely 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. This is perhaps the most prominent gap in the literature at present.

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. Drawing on the analysis of the Regulation School and referring to the Latin American Dependency School, it identifies financialisation in the periphery as a new type of dependency (Becker et al. 2010; Becker and Jager 2012; Becker and Weissenbacher 2015).[10]

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 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). The financial sphere became the main area of capitalist accumulation and peripheral economies emerged as attractive destinations for capital. 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.

Variable domestic economic and institutional conditions induce significant variation in the pace and form of developing country financialisation (Becker et al. 2010; Becker 2013; Becker and Weissenbacher 2015). Financialisation in developing countries is analysed also by considering the axis of internationally exposed/land-rent protected accumulation in the periphery (Becker and Weissenbacher 2015). Stress is laid on the importance of the mode of regulation in determining the trajectory of financialisation, and more specifically, the regulation modes imposed by the IMF and the World Bank on developing countries (Becker et al. 2010). Moreover, several (semi-)peripheral countries in Europe exhibit peculiar features of financialisation, often associated with the mechanisms of the European Union (Becker et al. 2010; Becker and Jager 2012).

Dependent financialised accumulation is generally considered to have 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 is mainly based 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 relying 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).

Before reviewing the empirical literature, it is appropriate to mention a further significant gap in the theoretical studies, namely the role played by the state. To be sure there are empirical studies – mentioned in the rest of the article – referring to the role of state institutions in facilitating financialisation in developing countries, most notably the central bank.[11] But there is no doubt that the state has a very minor presence in the literature.[12] Moreover, the theoretical framework for the analysis of state power and financialisation in developing countries is far from clear. This is particularly acute in view of the 'subordinate', or 'dependent' character of such financialisation, which obviously calls for open consideration of the relationship between developed and developing country states in the world market.

Recapping, the main theoretical approaches treat financialisation in developing countries as derivative of the prior financialisation of developed countries, a historical process that is 'subordinate' or 'dependent' due to hierarchical relations in the world economy. Both approaches stress the importance of liberalised capital flows, reserve accumulation, and international financial institutions. Nonetheless, the role of multinational enterprises and the connection between international production and financialisation have not been sufficiently investigated. Similarly, the role of the state in facilitating developing country financialisation calls for further and urgent examination.

4. Empirical analyses of financialisation in developing countries

The literature on financialisation in developing countries comprises mostly empirical work, as was already mentioned. Empirical studies offer important insight particularly regarding the conduct of non-financial corporations, banks, and households as financialisation took root in developing countries. However, studies tend to map characteristic phenomena of developed country financialisation onto developing countries, without adopting a clear theoretical framework, and often relying on standard metrics of financial liberalisation and financial globalisation. Before considering this literature, therefore, it is important to have closer look at the use of metrics in empirical work.

4.1. The problem of metrics in empirical work

To establish the increasing weight and role of finance in the economy, empirical work on financialisation no doubt necessitates deployment of standard finance-related metrics, such as 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, as was argued in sections 2 and 3, financialisation is an economic and social transformation closely associated with evolving capitalist accumulation. Specifically, it is related to the changing conduct and interactions of non-financial enterprises, the financial sector, and households. Without this theoretical recognition, finance-related metrics could never demonstrate the existence of financialisation either in developed or in developing countries. Growth of the financial sector, for instance, even when it is rapid, is not evidence of financialisation but an integral aspect of maturing capitalism. Similarly, accumulation of debt by a developing country could indicate nothing more than a domestic imbalance of saving and investment.

Note, incidentally, that standard metrics could also create difficulties for 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; Von Furstenberg and Fratianni 1996; Levine and Zervos 1998). 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.

The need to develop metrics appropriate to developing countries is apparent in the literature, in view, especially, of the risks of conflation between financialisation, financial liberalisation, financial globalisation, or even plain development of the financial sector. Tyson and McKinley (2014), for instance, in their 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), discussing different interpretations of financialisation in empirical research, deploy a range of indicators to capture financialisation in developing countries relative to the UK and USA. However, it is not immediately apparent that the metrics reflect more than some aspects of financial liberalisation and financial globalisation.

Crucial in this regard is that developing countries do not follow the same trajectory of financialisation as developed countries, while financialisation is subject to considerable variation in both. It is possible for developing countries to exhibit symptoms of financialisation even though they lack 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, financial innovation continually transforms financial instruments and institutions in developing countries. 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 need to deploy metrics appropriate for financialisation in general. 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 the analysis of financialisation in Argentina. Similarly, Becker et al. (2010)

distinguished between indicators appropriate for fictitious capital-based and for interest-bearing capital-based financialisation. Lapavitsas (2013) considered an array of measurements of indebtedness of corporates, banks and households as well as of the financing of investment. 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 specific indicator of financialisation.

Some of these metrics could also be useful and appropriate for developing countries, given the underlying commonality of character in financialisation. Such metrics would include shifts in the asset and liability structures of non-financial corporations, banks, and households, including their interrelationships. The mode of funding of investment by non-financial enterprises would also be significant, particularly the balance between own-funds, bank borrowing, and open market funds (equity and debt). Household borrowing relative to disposable income would be equally important, bearing in mind that in developing countries such borrowing tends to comprise unsecured consumer debt (often credit-card related) rather than mortgage debt. Finally, the composition of bank balance sheets and the profitability of banks would also offer appropriate metrics for developing countries.

Given the decisive role of international factors in developing country financialisation, however, metrics relating to various international dimensions of economic activity would be particularly appropriate compared to developed countries. Thus, the type, magnitude, and volatility of capital inflows and outflows, the size of international reserves, the fluctuations of exchange rates, and the relative movements of interest rates would evidently be more significant in analysing financialisation in developing than in developed countries.

Similarly, the activities of foreign financial institutions, often with an international presence, would set the terms of reference for domestic financialisation. These factors would impact on the conduct of monetary policy, including the sterilisation policies of the central bank and the provision of domestic liquidity, which could catalyse subordinate or dependent financialisation. Finally, the policies of multilateral institutions combined with the actions of the state in developing countries would affect the supply of public bonds and other assets, potentially spurring financialisation.

Reviewing the extensive empirical literature, particularly studies relating to the conduct of non-financial corporations, banks, and households, offers further insight into appropriate metrics and their deployment. The literature also focuses on the implications of financialisation for the vulnerability of developing countries. These issues are considered in the rest of this section.

4.2. Non-financial corporations and banks

Empirical work indicates that in recent 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; Gungen 2010; Paulani 2010; Rethel 2010; Araujo, Bruno, and Pimentel 2012; Karwowski 2012, 2018; Levy-Orlik 2012; Seo, Kim, and Kim 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, Bruno, and Pimentel 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.

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

Calling for further analysis against this backdrop is the increasing participation of enterprises from developing countries in global production networks. Integration into the latter facilitates, and even requires, integration into international financial markets. Depending on firm-specific, sectoral, national, regional, and other factors – including the governance of global production networks – large enterprises in developing countries may obtain finance from international financial markets independently as well as through production networks. Their financial practices, including transactions to hedge currency and operational risks, are associated with capital flows and potentially with 'subordinate' or 'dependent' financialisation.

Note that there has also been a significant increase in mergers and acquisitions targeted to developing countries, but mostly in the financial sector and in privatised public enterprises and public 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 acquisition of productive assets by multinational corporations appears to have impacted on the functioning of developing country non-financial corporations, encouraging a shift toward shareholder value and equity financing. This shift had negative implications for productive investment, including a reduction of funding for research and development (Kalinowski and Cho 2009; Seo, Kim, and Kim 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 of financial markets in developing countries does not reveal a definitive shift from bank-based to market-based finance in these countries (Erturk 2003; Rethel 2010; Cibils and Allami 2013; Levy-Orlik 2013, 2014; 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 do not have the option of obtaining finance in domestic or international markets. Instead, enterprises rely on retained earnings, funds from parent enterprises or affiliates, and credits from the banking system (Rethel 2010; Levy-Orlik 2012; Powell 2013; Kaltenbrunner and Painceira 2018; Gezici, Orhangazi, and Yalcin 2019). Enterprises even hold large amounts of cash, partly for precautionary purposes (Demir 2009b; Karwowski 2012; Powell 2013; Akkemik and Ozen 2014). 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).

Still, the banking sector of developing countries has acquired 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, Vidal, and Marshall 2012; Levy-Orlik 2013; Powell 2013), Argentina (Cibils and Allami 2013), Brazil and Mexico (Dos Santos 2013). Foreign banks have played 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, Vidal, and Marshall 2012; Levy-Orlik 2013). Furthermore, they have 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, Vidal, and Marshall 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 technologies (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 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.

4.3. 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, Fine, and Newman 2011; Painceira 2012; Ashman and Fine 2013; Dos Santos 2013; Karacimen 2014, 2015; 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. The privatisation of pensions systems, as well as the decline in public provision of essential goods and services, including housing, education, and health, has further contributed to household financialisation (Sumaria 2010; Rodrigues, Santos, and Teles 2018; Saritas 2020).

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 capital flows that reflect 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, in South Africa and South Korea, there are also high levels of mortgage debt (Cho 2010; Ashman, Fine, and Newman 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, Fine, and Newman 2011; Bahce et al. 2015; Karwowski 2018; Fernandez and Aalbers 2020). When housing becomes a financial asset in developing countries, it is mainly held by higher income groups (Celik, Topal, and Yalman 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, Vidal, and Marshall 2012; Garcia-Arias 2015; Lavinas 2018). Furthermore, as Ashman, Fine, and Newman (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. Lapavitsas (2009a, 2013) proposed the term 'financial expropriation' (and 'exploitation') 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. In a similar way, 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).

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).

4.4. Intensified vulnerability

The financialisation of non-financial corporations, banks, and households in developing countries has been accompanied by additional economic vulnerability. A significant part of the empirical literature is concerned with locating and assessing the sources of this vulnerability, particularly in relation with the critique of financial liberalisation and financial globalisation.

Capital flows, for instance, are treated as volatile and pro-cyclical thus inducing instability in developing economies (Stockhammer 2010; Akyuz 2014, 2017; Tyson, Griffith-Jones, and te Velde 2014; Tyson and McKinley 2014). The formation of exchange rates, interest rates, asset prices, as well as the volume of capital flows,are increasingly determined by the portfolio considerations of international investors (Kaltenbrunner and Painceira 2015, 2018; Isaacs and Kaltenbrunner 2018). The result is the co-movement of financial prices across developing countries, causing further vulnerability. The entry of foreign financial institutions in developing countries creates additional instability (Kaltenbrunner 2010; Correa and Vidal 2012; Correa, Vidal, and Marshall 2012; Akyuz 2014; Isaacs 2015; Kaltenbrunner and Painceira 2015, 2018; Isaacs and Kaltenbrunner 2018).

An important contributor to vulnerability is the macroeconomic policy framework that frequently attends 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 (Lapavitsas 2009b; Painceira 2009; Becker et al. 2010; Powell 2013; Isaacs 2015; Isaacs and Kaltenbrunner 2018). The result is sustained overvaluation of the exchange rate that offers capital gains to international investors and imposes a pressing requirement to hold large international currency reserves.

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. Although, as Ergunes (2009) and (Bahce et al. 2015) argue, international funds could potentially be invested in productive capacity, they are often 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; Powell 2013; Orhangazi and Ozgur 2015; Kaltenbrunner and Painceira 2015, 2018; Isaacs and Kaltenbrunner 2018).

Moreover, exchange rate appreciation encourages the import 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. Nevertheless, access to international markets remains difficult, expensive and volatile for enterprises in developing countries. Great volumes of private debt denominated in foreign currencies exacerbate vulnerability by linking risks in the productive sector with risks in the financial sector.[13]

Currency and maturity mismatches in the assets and liabilities of both 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 can 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 (Hofmann, Shim, and Shin 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 even with positive net foreign asset positions, such as China, register deficits in net international investment income.

Vulnerability could also be potentially increased through the movement of prices in commodities markets. The formation of these prices has become detached from the underlying determinants of demand and supply, and synchronised price movements in commodity and financial markets reflect market liquidity cycles in global finance (Nissanke 2012). 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 developing countries (UNCTAD 2011; Nissanke 2012; Ederer, Heumesser, and Staritz 2016; Bargawi and Newman 2017).[14] 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).

5. Conclusion

The recent literature on financialisation in developing countries is partly theoretical but mostly empirical, generating a large body of work. By reviewing this literature, it was shown that financialisation comprises underlying tendencies, emerging and evolving under specific economic, social, 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. The concept of financialisation in developing countries belongs to political economy and is distinct from both financial liberalisation and financial globalisation, even if it covers some similar terrain.

The theoretical part of the literature is relatively limited but still contains two prominent approaches, namely 'subordinate' and 'dependent' (or 'peripheral') financialisation. These 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, foreign financial institutions, the global hierarchy of currencies, 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 productive relations and (subordinate) financialisation.

Most of the literature is empirical, shedding light on a host of issues that relate 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 regarding the overall character of financial systems, which remain largely bank based. Nonetheless, 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 regarding the connection with the state, and this is also work that remains to be done.

Notes

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 output of FESSUD (Financialisation, Economy, Society and Sustainable Development) on developing countries.
3. 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 a recent comprehensive and informative review by Arestis (2016).

4. 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, Prasad, and Taylor (2011).
5. For sustained critical evaluations of liberalised capital flows, see Painceira (2009), Rodrik and Subramanian (2009), Stockhammer (2010), Bonizzi (2013), and Garcia-Arias (2015).
6. For instance, Stockhammer (2008), Boyer (2000), and Guttmann (2016).
7. For instance, Rey (2013).
8. 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/
9. Note for the record that Lapavitsas, Kaltenbrunner, Powell, and Painceira were members of RMF.
10. Weissenbacher (2018) discusses the relevance of dependency theory in Europe.
11. See Painceira (2022).
12. There are a few notable exceptions, for instance, Gungen (2010) pointing out the role of public borrowing in financialisation in the case of Turkey.
13. Becker et al. (2010) deploy the term ‘dollarised financialisation’ to denote the tendency to accumulate loans denominated in US dollars (or euros).
14. The microstructure of commodities markets is important in this respect, particularly the emergence of ‘index traders’, who passively buy 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, see, for instance, Irwin and Sanders (2011), Henderson, Pearson, and Wang (2015), Tropeano (2016), Van Huellen (2020).

Disclosure statement

No potential conflict of interest was reported by the author(s).

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