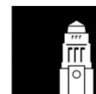

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Article:

Bortz, PG and Kaltenbrunner, A orcid.org/0000-0003-3519-5197 (2018) The International Dimension of Financialization in Developing and Emerging Economies. Development and Change, 49 (2). pp. 375-393. ISSN 0012-155X

https://doi.org/10.1111/dech.12371

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THE INTERNATIONAL DIMENSION OF FINANCIALISATION IN DEVELOPING AND EMERGING ECONOMIES

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1. Introduction

So far the literature on the defining features and expressions of the financialisation process has largely focused on its domestic aspect conceived in the context of developed countries. There have been detailed analyses of the changes in economic agents' financial practices and relations, including the existence of higher shareholder power vis a vis managers; greater importance of capital gains, dividends and interest payments as sources of income; and short-termism and speculative investment as guiding factors of non-financial corporations. There are two striking characteristics of these analyses. On the one hand, they have adopted a broad but at the same time detailed study of the financial interactions between different sectors of an economy, such as banks, central banks, non-financial firms (NFC), rentiers, and households (e.g. Lapavitsas, 2014). These characteristics are largely derived from the typical behaviour observed in Anglo-Saxon economies.

On the other hand, these analyses are based on developments within domestic economies and decisions on a national scale. Even those papers tackling financialisation phenomena in developing and emerging economies (DEEs) have largely adopted a closed-border outlook and analysed the domestic characteristics of financialisation observed in developed countries. Very few papers so far have focused on the distinct international nature of financialisation in DEEs.[1] Those which have, have mainly drawn attention to its quantitative nature, by pointing towards the recent surge in international financial flows (Tyson and McKinley 2014; Stockhammer 2010). However, there has been a relative neglect of the qualitative changes that have occurred in the international financial system since the 1970s, changes that speak about a different integration of DEEs into world financial markets, with global and domestic repercussions. After all, international finance can be said to have started around the times of the Crusades. Is the financialisation process just a matter of volume?

This paper fills this gap. It argues that not only have we seen distinct domestic financialisation processes, but also international financial markets and the way economic agents relate to them have changed over recent years. These changes have

[1] Some more papers have highlighted the driving role of the international economy for financialisation processes in DEE (e.g. Powell, 2013; Kaltenbrunner and Painceira, 2016). In contrast to that literature, we focus on the distinct international manifestations of financialisation in DEEs.

gone beyond a mere increase in international capital flows, but have entailed important changes in the type of actors, instruments, and markets dominant in international financial relations. Moreover, in line with the emerging literature on subordinated financialisation, the paper shows how these changes have been shaped and have themselves exacerbated DEEs' subordinated position in the international economic and financial system and hence contributed to exacerbating uneven international development.

The structure of this paper is as follows. Section two will review the literature on financialisation, with a focus on DEEs. Section three examines quantitative and qualitative changes in DEEs' cross-border relations, both in terms of actors and instruments. Drawing on those "stylized facts", section four tries to dissect what are the distinctive features of the financialisation process in DEEs seen from an international perspective. It further shows how this international financialisation subjugates and perpetuates DEEs' subordinated position in the international economy. Section five will conclude with some policy alternatives to deal with the increasingly complex financial relations between actors in DEEs and the international financial system.

2. Putting the International into Financialisation

The changing financial relations and practices of economic agents in current capitalism, a phenomenon often characterized as financialisation, has received considerable attention over recent years both in the academic literature and the policy debate. The phenomena investigated include the increased holdings of financial assets and market funding by large non-financial corporations (NFCs) (Orhangazi, 2008, Stockhammer, 2004), the importance of shareholder value (Lazonick and O'Sullivan, 2000), the rising involvement of households in predatory debt relations (Aalbers, 2008, Montgomerie, 2009, Dymski, 2010), the changing income pattern of banks from deposits and lending to fees and commissions (Erturk and Solari, 2007, dos Santos, 2009), the rise in bank funding from markets rather than deposit taking (Lapavitsas, 2009), and the financialisation of everyday life (Langley, 2008).

Similar phenomena have also been highlighted in DEEs (see Bonizzi (2013) and Karwowski and Stockhammer (2016) for overviews). For example, Rethel (2010), Powell (2013), Akkemik and Özen (2014), and Correa et al. (2012) show the increased involvement of DEEs NFCs with (international) financial markets. Kalinowski and Cho (2009) and Seo et al. (2012) highlight the importance of shareholder value in Korea. Gabor (2010) and Karacimen (2016) point to the rising integration of DEEs households into credit markets through consumption and/or housing loans. Finally, a few authors have noted the changing behaviour of DEEs banks, which have increasingly substituted (household) deposits for market funding (Painceira, 2011, dos Santos, 2009).

One thing that this literature has in common, despite its emphasis on different phenomena and disciplinary lenses, is the notion that these processes have fundamental implications for capital accumulation, both its level and structure. For example, Stockhammer (2004), Orhangazi (2008), and Demir (2009) show the negative implications of financialisation for (private) investment and capital accumulation. Correa et al. (2012), Levy-Orlik (2012), and Powell (2013) discuss the differential implications financialisation has for companies depending on their size, sector and international competitiveness. Moreover, and related to these findings, finance(ialisation) has been argued to be a major catalyst for exacerbating processes of uneven development (Sokol, 2016, Pike and Pollard, 2010). This holds true both on the micro and the macroeconomic level. On the micro-level financialisation has detrimental implications for wages, income distribution, the provision of social services etc. On the meso-and macroeconomic level, differential integration with and relation to the financial system exacerbates economic development between regions and countries (Kaltenbrunner and Painceira, 2016).

Another, somewhat surprising feature of this literature is its focus on national economies both with regards to the drivers of financialisation and its distinct manifestations (Montgomerie (2008), Christophers (2012), and French et al. (2011) argue for a more explicit international lens for the analysis of financialisation and increased cross-fertilization between the literature on financialisation and that on financial globalisation). As to the former, the drivers of financialisation have been

mostly located in national economic developments;[2] either in the stagnation of late capitalism, the falling rate of profit and the consequent contraction of demand (Magdoff and Sweezy, 1972, Arrighi, 1994, Brenner, 2004); or deregulatory government actions which have unleashed the forces of finance and led to an unprecedented increase in financial markets and financial actors (Boyer, 2000, Aglietta and Breton, 2001, Duménil and Lévy, 2004, Stockhammer, 2004, Orhangazi, 2008).[3] More recently, in the context of DEEs, some authors have pointed explicitly to the driving role of international financial integration and international financial markets for shaping financialisation phenomena in DECs (Lapavitsas, 2014, Powell, 2013, Painceira, 2011, Becker et al., 2010, Basualdo 2010, Kaltenbrunner and Painceira, 2016).[4] Moreover, several of these authors point to the subordinated nature of this financial integration and the important implications it has for exacerbating uneven development.

As to the latter, that is the characteristic elements of financialisation itself, there is surprisingly little analysis of the international aspect of financialisation. If mentioned at all, then it is most frequently associated with financial globalization, which in turn is equated to a rise in international cross-border flows (Stockhammer, 2010, Karwowski and Stockhammer, 2016, Tyson and McKinley, 2014). This, however, raises questions about the novelty and distinctiveness of the process. On the one hand, several authors have argued that we find ourselves already in a second or even third wave of globalization (e.g. Hirst et al., 2009). On the other hand, treating international financialisation as a merely quantitative dimension neglects the crucial qualitative changes in financial markets highlighted by the financialisation literature. Indeed, financialisation goes far beyond a mere increase in financial operations. It shows the important changes in the way finance operates and how agents relations to it. A few authors explicitly use the term international financialisation (Garcia-Arias, 2015, Kaltenbrunner, 2010, Bonizzi, 2017). For Kaltenbrunner this refers to the rise in short-

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[2] This also holds true for the contribution of Jayadev et al (2018) in this issue, with the clarification that they use a regional unit of analysis when mapping financialisation in Europe.

[3] One exception are recent attempts in the Monthly Review School to place their theory of financialisation within the context of the internationalisation of accumulation. Here the economic surpluses of international oligopolies find their outlet in developing countries through the integration into capitalist production of a global reserve army (Powell 2013)..

[4] See as well the contribution of Gabor (2018) in this issue.

term trading in international financial markets. Bonizzi (2017) discusses the forces of 'privatised Keynesianism' which has pushed international (institutional) investors to DEEs. This paper contributes to this literature by providing a more systematic analysis of the international aspect of financialisation in DEEs.[5]

3. Mapping International Financialisation

The quantitative increase in external assets and liabilities of DEEs, and its reflection in global financial flows, is well documented (e.g. Akyüz 2014, UNCTAD 2015). According to IMF Balance of Payments Statistics, between 2008 and 2015 external assets of DEEs rose 56.7%, while external liabilities increased by 70.7% (compared to just 23.0% and 22.0% respectively for advanced economies). Table 1 shows the increase in both average capital inflows (by non-residents) and outflows (by residents) to and from DEEs in percent of GDP.

Table 1: Capital inflows and outflows to/from developing and transition economies (Per cent of GDP)

	1976-1985	1986-1995	1996-2005	2006-2015
Capital Inflows	**3.52**	**3.11**	**3.90**	**6.13**
FDI liabilities	0.56	1.08	2.86	3.68
Portfolio liab.	0.15	0.88	1.02	1.08
Fin. Deriv. Liab.	0.00	-0.01	-0.17	-0.65
Other Inv. Liab.	2.81	1.16	0.19	2.02
Capital Outflows	**2.22**	**1.47**	**5.04**	**7.84**
FDI assets	0.04	0.20	0.75	1.51
Portfolio assets	0.37	0.18	1.03	0.29

[5] Our analysis of these qualitative changes in DEEs' relation to international financial market raises the interesting question of how these changes are related to domestic financialisation phenomena, i.e the political economy of international financialisation. Kaltenbrunner and Painceira (2017) have made a first step in this direction by showing how the changing nature of Brazil's financial integration spurred the financialisation of banks, households and non-financial corporations. More research into the concrete channels of this transmission is needed.

Fin. Deriv. Assets	0.00	-0.01	-0.23	0.91
Other Inv. Assets.	1.25	0.24	1.25	2.76
Change in reserves	0.57	0.86	2.24	5.41

Source: Authors' elaboration based on IMF Balance of Payments Statistics.

Capital inflows and outflows rose from 3.52% and 2.22% of GDP in 1976-1985 to more than 6% and nearly 8% respectively over the 2006-2015 period. Moreover, Table 1 shows the important structural changes in the composition of these flows.

First, there has been a relative increase in FDI flows, both inward and outward, particularly from Latin American and Asian countries, targeting both developed countries and other DEEs (UNCTAD 2014). Although apparently reflecting an increase in long-term capital flows, these numbers should be taken with care.[6] Andreff (2015) shows the substantial involvement of tax havens as intermediate stations in outward FDI flows from the BRIC countries, both in "round[7]-tripping" (particularly for outward Chinese and Russian FDI) and "trans-tripping" (Brazilian and Indian FDI) routes.

Second, regarding the debt component of capital inflows, there has been a noticeable increase in portfolio debt flows relative to bank loans (though the latter still comprises the bulk of DEE external debt) (Avdjiev, Chui and Shin 2014, Bortz 2016, Chui, Kuruc and Turner 2016).[8] More generally, Kaltenbrunner and Painceira (2015) show that foreign investors have become exposed to an increasingly complex set of DEE domestic currency assets, such as equities, local derivatives and currencies as in the notorious carry trade phenomenon. These assets have remained relatively short-term, subject to

[6] One qualification to keep in mind is that FDI inflows include retained earnings by foreign companies. FDI numbers may also include portfolio acquisitions that pass the 10% ownership threshold, a low bar for smaller DEEs firms.

[7] Round-tripping FDI consists in, say, a Chinese enterprise buying an off-shore company, in order to reinvest later the same capital back in China. Trans-tripping refers to an enterprise buying an off-shore company in order to reinvest in a *third* country.

[8] More recently, cross-border bank lending to DEEs has slowed due to regulatory changes, particularly in Europe (Rodrigues Bastos et al 2015).

trading and taking advantage of short-term capital gains, rather than 'long-term' investing.

Indeed, trading in the most liquid international assets, i.e. currencies, has increased at exponential rates. Though the dollar still retains the predominant position, participating in 88% of all transactions, there are many DEE currencies that increased their share in foreign exchange trading. Table 2 conveys these developments and shows the financial nature of this surge, using BIS and UNCTAD data. The data shows that DEE currency trading has grown far beyond the measure implied by the evolution of their share in global goods and service trade.

Table 2: Share in foreign exchange trading to share in foreign trade ratio

	1998	2001	2004	2007	2010	2013
Brazil	100	207	106	141	213	353
Chile	100	235	133	88	140	291
Colombia	NA	100	134	169	267	246
India	100	216	241	389	392	375
Indonesia	100	64	170	177	197	222
Korea	100	529	662	681	812	603
Malaysia	100	179	131	358	748	1218
Mexico	100	152	256	321	310	606
Pihilippines	NA	100	117	431	640	551
Russia	100	98	147	138	160	263
South Africa	100	253	177	211	158	288
Thailand	100	103	134	125	108	177
Turkey	NA	100	247	400	1666	2774

Source: authors' elaboration based on BIS Triennial Central Bank Survey of foreign exchange and OTC derivatives markets, and on UNCTAD Database. Index 1998 = 100, except for Colombia, Philippines and Turkey.

On the investor side, traditional DEE investors (such as banks and dedicated funds) have been complemented with a wide range of others actors, including institutional investors (pension, mutual and insurance funds) and new types of mutual fund investors such as exchange-traded funds and macro hedge funds (Yuk, 2012, Jones, 2012, Aron et al., 2010). Given the enormous size of these financial investors, even a small reallocation of their portfolio shares can have a substantial impact on capital flows to DEEs, relative to their size. Moreover, these different actors have diverse investment strategies and funding patterns, substantially increasing the complexity of foreign investment.

In addition to the wider range of international financial investors involved in an increasingly complex set of domestic currency assets, DEEs' international financialisation has been characterised by a rising involvement of domestic economic actors with international financial markets. In particular, NFCs from DEEs have substantially increased their (international) financial exposure, mostly in foreign currency (dollars, most of the time) and through bond issuance by off-shore affiliates (directing-part of-the borrowed funds to their home company) (Tarashev, Avdjiev and Cohen 2016, p. 7). Although partly related to their internationalisation strategies (see the argument about FDI above), large parts of this borrowing was to engage in financial speculation in their domestic markets, for example in local derivatives (Chung et al 2014, Bruno and Shin 2015). The result was a substantial increase in short-term cash and financial asset holdings, akin to what has been observed for NFCs from developed countries.

As to the international operations of DEE financial institutions, Table 1 shows the increase in other investment assets (primarily bank loans and deposit) since 2003. DEEs banks have expanded internationally, partly accompanying the increase in outward FDI, partly offering their rich domestic clients new investment opportunities abroad, and partly on their own account (WEF 2012, p. 47-54).

But the most dynamic component of capital outflows in the last twenty years has been reserve accumulation by central banks. Among the motives for this policy are the desire to avoid large upswings in the nominal exchange rate (Bar-Ilan and Marion 2009) and the perceived need to build up stocks of international liquid assets as a preventive measure in the case of major speculative attacks (Bastourre et al 2009, Painceira 2012,

Ghosh et al 2012, UNCTAD 2015).[9] Large short term inflows, with no (or minimum) capital controls, expose DEEs to a run towards the main international currencies. In that sense, reserve accumulation reflects the subordinated and dependent nature international financialisation has taken in DEEs. This is what the next section turns to.

4. Subordinated International Financialisation and Uneven Development

The above section has described the distinct nature of international financialisation in DEEs. This section shows how, on the one hand, these processes have been shaped by these countries' subordinated position in a hierarchic and structured international monetary and financial system and, on the other hand, contributed themselves to cement this subordination and consequently uneven development. We base our discussion on the concept of international currency hierarchy, which shows the subordinated position DEE currencies assume in the international monetary system (e.g.) (Riese, 2001, Herr and Hübner, 2005, Dow, 1999, Andrade and Prates, 2013; Kaltenbrunner, 2015). Applying Keynes' own rate of return and liquidity preference theory to the open economy, these authors argue that currencies can be considered distinct international assets which boast different liquidity premia. This creates a hierarchy between currencies at the top of which stands the currency with the highest liquidity premium, in Keynes' times the Pound Sterling nowadays the US dollar. In line with Keynes' own rate of return equation, whereas the top currency profits from an 'exorbitant' privilege (it can offer very low interest rates due to its high liquidity premium), the reduced liquidity premium of currencies at lower ranks of the hierarchy,[10] mostly DEE currencies, means that their issuers have to offer higher interest rates (to maintain demand for them), are subject to short-term speculative operations (as international investors are reluctant to commit longer term funds), and suffer an excessive degree of external vulnerability (because any change in international liquidity preference might

[9] The policy of reserve accumulation has been attacked by Patnaik (2007) and Bibow (2011), among others. Bussière et al (2015) and Bortz (2016) provide evidence and arguments in its favour.

[10] This approach theorizes from a Post Keynesian Perspective a long-standing distinction in (development) economics between 'soft' and 'hard' currencies, which are distinguished by their ability to credibly maintain value.

cause a flight to the currency with the highest liquidity premium, that is the top currency).[11]

First, although increasingly denominated in domestic currency, hence reducing DEEs' 'original sin', capital flows to DEEs have remained very volatile and have been increasingly affected by the stance of US monetary policy and global risk perception (Ahmed and Zlate 2013, Kaltenbrunner and Painceira 2015, among many others). This has been due to the growing presence of foreign banks and other foreign non-banking investors in DEEs financial markets. The increased share of foreign investors in DEE assets has meant that any change in funding conditions at their headquarters, or the tightening in risk perceptions, can have a direct impact not only on the prices of domestic assets, but also on their exchange rates and/or reserve stocks, transmitting the shocks to the domestic economy. This volatility has been compounded by the fact that DEE's external public debt maturities have not increased and that many of these flows have been attracted by expected capital and exchange rate gains, making them very sensitive to changes in expected returns and risk premiums. In line with Keynes' famous chapter 12 of the General Theory, these expectations – formed under fundamental uncertainty – are largely driven by (inter)subjective factors such as social conventions, 'whims', and 'fads' which can give rise to large swings in asset prices largely unrelated to domestic economic conditions.

Being on the lower ranks of the international monetary hierarchy means that investors are reluctant to commit longer term funds to DEEs assets. Moreover, large parts of these investments remain funded in developed country currencies (primarily the US dollar). This means that any change in international market and funding conditions can lead to a reversal in capital flows largely independent of conditions in DEEs. With financial markets and financial actors integrated into international markets, the "financial frontier" between the domestic and the external market has become increasingly porous, which means isolation is non-achievable.[12] In the case of domestic currency investments by international investors the resulting currency mismatch on international investors'

[11] By pointing to the important implications this monetary hierarchy and subordinated international financialisation have for uneven development, our analysis follows in the footsteps of dependency theory, in particular Tavares (1985) and her analysis of financial dependency.
[12] Keynes' call for "let finance be primarily national" (1982 [1933], p. 236) is more difficult to achieve within these conditions.

balance sheets increases their sensitivity to (expected) exchange rate changes, further contributing to capital flows volatility.

Second, and related to the first argument, the lower position in the international currency hierarchy and the dominant position of the dollar forces DEEs to offer higher interest rates. This, together with the substantial exchange rate volatility, makes DEEs assets and currencies prime targets for unstable carry trade operations, both by international investors and domestic agents.[13] As discussed above, the high interest rates together with lax lending conditions in international market and lower risk perceptions, enticed major NFC to borrow abroad through dollar-denominated securities and engage in carry-trade-like speculative activities, impacting financial conditions at home, in what could be named a "financial Dutch disease" (Botta, Godin and Missaglia 2014, Bortz 2016).

Currencies on the top, on the other hand, can afford low interest rates, particularly in times of stress. Though, in principle, these lower rates could stimulate investment and growth, they may fail to do so if not accompanied by a broader set of policies. In this case, with low demand and low returns at home, financial capital moves to DEEs, as they did in the aftermath of the global financial crisis. The limited size of DEEs capital markets makes these inflows behave like 'a big fish in a small pond' (Haldane 2011). At the same time, although receiving capital inflows, DEEs may be prevented from reducing their policy rates for two reasons. First, monetary relaxation at home (or tightening in international conditions) may trigger outflows proportional (or greater) to the inflows they received. Second, large depreciations reduce the value of their domestic assets, lowering their relative position in the hierarchy, and facilitating acquisitions of domestic assets (such as companies) by foreign capital. This is another expression of the currency hierarchy which constrains DEEs governments.

Third, with regards to the new financial practices of DEEs NFCs, above section showed that, similar to developed country NFCs, large companies from these countries have

[13] Carry trade refers to the act of borrowing in one currency (usually, the US dollar) and investing in some short-term financial asset in DEEs in order to profit from the interest rate differential, expecting favourable exchange rate movements that compound the profitability in dollars. Risks relate to the feedback effects on exchange rates, the short-term maturity of the investments, the roll-over risks and the eventual impact of significant capital flights which may drain much-needed foreign reserves at times of stress.

ratcheted up their external borrowing. However, in contrast to developed countries, which could be served by relatively large and liquid domestic capital markets, this borrowing has taken place in offshore financial centres and foreign currency. This subjugates these companies not only to substantial exchange rate risk but also the rules and regulations of international financial markets. The fact that this borrowing was (partly) obtained through off-shore affiliates does not alleviate the obligation of the home company with regard to debt repayment.

Finally, we have shown the vast accumulation of cash reserves, both by private actors and central banks. Whereas cash holdings in developed countries have been motivated by the attempt to generate financial gains and satisfy shareholder pressures, an important motivation in DEEs is to defend against macroeconomic uncertainty and volatility (Akkemik and Özen 2014). The need to protect themselves from macroeconomic, in particular exchange rate, volatility has also been an important driver of NFCs increased involvement with derivatives markets[14] (Farhi and Borghi, 2009). [15]

At the same time it was arguably these same implications of DEEs' subordinated international financialisation which have cemented their subordination and consequently uneven development. Volatility of domestic asset prices and key macroeconomic variables, such as the interest rate and exchange rate, weighs on productive investment decisions. More than that, the exchange rate patterns characteristic of carry trade currencies – that is sustained periods of appreciation followed by sudden depreciations – first detrimentally affect competitiveness and then vulnerable balance sheets if the movements are large and unexpected (where balance sheet vulnerabilities themselves could be the outcome of the preceding appreciation periods as a result of moral hazard and speculative exchange rate positions).

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[14] According to data from the Bank for International Settlements, average daily turnover in 33 DEEs derivatives markets increased by 300% between April 2001 and 2010 to US$1.2 trillion (6.2% of GDP). This compares to US$13.8 trillion in advanced economies (36% of GDP) (Mihaljek and Packer, 2010).

[15] Although this 'external' drivers have been important for DEEs it is important to note that the exact manifestations of the financialisation phenomena observed have been shaped fundamentally by countries' specific historical and institutional conditions. Moreover, it is also important to highlight the driving role of DEEs capital which has sought to take advantage of these internationalisation and financialisation processes.

In a similar vein, akin to the argument for developed countries, the increased leverage and large cash holdings and investment in financial assets of DECs NFCs can distract from real productive investment (Demir, 2008, Demir, 2009). The fact that the number of borrowers has not increased (as did the amounts borrowed) does not affect the weight of this argument (IMF 2015). NFCs borrowing abroad are large companies that represent a substantial share of productive investment in their home economies, i.e. they are systemically important at a national scale. Any setback in external financial conditions has now a new transmission channel to the domestic economy by influencing the investment decisions of large NFCs. In fact, solvency ratios, exchange rate exposure and profitability indicators of NFCs borrowing abroad have all deteriorated in recent years. (IMF 2015). And just like the mounting cash pile amassed by NFCs dedicated to speculative investment, the massive reserve accumulation by DEEs central banks represents a vast pool of 'unproductive' resources placed in US treasury bills rather than domestic investment opportunities (Cruz and Walters 2008).

However, financialisation does not only impact the level of productive investment, but importantly also its structure, and consequently income distribution.[16] The rise of sectors such as natural resource exploitation, construction, finance, and real estate (sectors in which the major private DEEs companies have been borrowing abroad, as registered by IMF (2015)) has led to a premature deindustrialization (Benigno, Converse and Fornaro 2015, Bortz 2017) and falling wage shares in many DEEs (Furceri and Loungani 2015). This is the other side of the "financial Dutch disease".

Besides these implications for the 'real' economy, international financialisation also arguably cements existing international currency hierarchies and the DEEs' subordinated position within them (Tavares, 1998, Braga, 1998). Whereas the US dollar's role as the world's most important funding currency grants it substantial value stability, the opposite is the case for financialised investment currencies facing latent depreciation pressures and the likely large and sudden loss of value during periods of

[16] The productive structure changes due to the rise of non-tradable sectors linked to the rise of finance (construction, financial services, etcetera) and commodity-related investment. Income distribution changes due to the rise in asset prices (housing, financial assets), the decline in industrial production, and the change in bargaining power against labour, that tends to depress wage growth.

market turmoil (Kaltenbrunner, 2015).[17] These latent depreciation pressures make (international) investors reluctant to commit longer term funds to these currencies or indeed to use them as a funding currency, cementing their subordinated position in the international monetary hierarchy.

5. Policy implications and Conclusions

This paper has argued that in contrast to how it is currently discussed in the literature, the international aspect of financialisation is more than just an increase in cross-border capital flows, but is characterised by distinct qualitative changes in the way economic agents relate to international financial markets. Moreover, in the case of DEE, it has held that these qualitative changes are more than just waves of financial innovation sweeping over to DEEs, but that these waves are fundamentally shaped by the subordinated position of DEEs' in the international monetary system, which makes them larger, more volatile and frequently entirely independent of domestic economic conditions. The question which remains to be answered is what DEEs can do to confront this new reality of international financial markets and monetary subordination? Hyman Minsky (1975) defined an economy as a relationship of balance-sheets. What are the policy implications when some (increasingly more) of those balance sheets relations are with foreign entities/institutions/individuals? (Bonizzi 2017). What are the challenges and instruments at the hand of governments when the channels through which these relations develop become increasingly complex?

The first thing to notice is that a holistic look at all sectors of an economy is as important as looking at the sectorial balance sheets (Al-Saffar et al 2013). The integration of new economic actors into international financial markets implies that looking at traditional exchange risk exposure measures (such as government debt or domestic credit denominated in foreign currency) are not enough. Currency mismatches do not only concern traditional lenders (banks), but also new borrowers (households, firms) and financial investors (pension funds, etc.). This also implies that we need to move from a 'macroeconomic' analysis of financial risk, which takes a country' aggregate balances as indicators of financial fragility, to a 'microeconomic' one which

[17] This is one of the main reasons why wealthy DEEs residents invest in advanced financial markets: they can profit on the sudden depreciation of the currency. Financial integration provides new ways and instruments to cannel this capital flight.

is sensitive to agents' balance sheet risks across and beyond national borders. A corollary is that the potential risk to DEE economies is best assessed through a nationality, rather than the traditional residence criteria (Chui, Kuruk and Turner 2016, among others).

Capital controls have been proposed to counteract capital flights, to prevent excessive currency appreciations, and to (relatively) isolate the domestic economy from the vicissitudes of international markets, providing more policy space for DEEs governments (Epstein 2005, among many others). But the incessant drive for innovation in financial markets, combined with the complexity of instruments and actors that characterises the process of international financialisation, increase the costs of imposing those controls, while rendering them inefficient, or ultimately ineffective. That does not mean that capital controls lack a meaningful role to play. But policy makers should take into account several criteria when designing control schemes.

First of all, in the face of a tendency of financial markets to innovate, it is important to adopt a dynamic approach when designing those schemes, in the sense that they need periodic revision and updates based on the results and changes in international markets (Grabel 2012). Second, capital controls oriented to specific purposes or goals can be more effective than general, overly encompassing measures. Discouraging specific capital inflows/outflows (such as portfolio flows, Ahmed and Zlate 2013), delinking inflows from their impact on particular sectors (Jara and Olaberria 2013), orienting flows towards longer maturities (Baumann and Gallagher 2012), are all valuable objectives that can be pursued through the proper design of capital control measures.

Third, in line with the analysis presented in this paper, particular attention needs to be paid to agents' currency mismatches which are inherent to cross-border transactions. Lending in hard currency should only be given to domestic borrowers with earnings in that currency, i.e. exporters. Importers would have to find their way to obtain international money, unless specific imports are deemed necessary for developing policy objectives. In line with our 'microeconomic' view of international financial relations, all nationals, including those operating offshore, should be targeted. A novel proposal in that sense would be to impose a reimbursable tax on foreign private borrowing. For instance, NFCs (or banks for that matter), located both onshore and offshore and borrowing in international markets, would have to pay a surcharge, which

would be reimbursed if they can prove that the funds were used for capacity-expansion objectives, ideally oriented to boost exports. Refinancing domestic debt through foreign borrowing, even with lower interest rates or more extended maturity, should be heavily penalised. More than that, our analysis has shown that even if DEE nationals denominate their debt in domestic currency, the risk of large exchange rate and capital volatility remains as the currency risk shifts to the foreign investor. Thus, to avoid the funding risk emanating from these operations (and encourage funding in DEE currencies) we would suggest levying this tax even on the operations of non-national investors operating in DEE financial markets.

Fourth, cross-border banking practices also entail challenges. The regulatory approach of Basel III imposed on DEEs discourages the expansion of credit to productive purposes, by assigning more capital requirements to allegedly riskier borrowers and projects. However, Basel III does grant DEEs space to deal with a mentioned feature of this financialisation process: the presence of foreign banks in domestic financial markets, not only through lending by their headquarters, but also through the operation of affiliates (Gambacorta et al 2017). A regulation of the relation between these affiliates and their home company is in order to reduce the exposure of DEEs to international liquidity shocks.

Finally, the international currency hierarchy shows the need for international collaboration to reduce the excessive risks for DEEs. Give the difficulty of imposing capital controls on a global level, this could be through currency swap lines between DEEs and the countries of foreign banks' headquarters, as was explored in the 2008 financial crisis and the Eurozone crisis (UNCTAD 2015, p. 67-70).

On a more general level, though, our analysis also shows the inherent and endogenous nature of international financial and monetary asymmetries and thus the excessive risk international financialisation brings for DEEs. For example, as mentioned above, the international currency hierarchy forces DEEs to adopt higher interest rates to maintain demand for them. It is this policy, however, which encourages national agents to borrow in international markets, thereby increasing their foreign exchange exposure and adding to debt servicing outflows. This is another reason for adopting a holistic approach, not only focused in a sectoral analysis, but also considering different instruments and acknowledging the limits of private finance. For example, credit allocation by public

banks may help to compensate the negative impact of higher interest rates, engaging and expanding development banks, specialised banks, etcetera. The self-feeding, endogenous nature of the international hierarchy discourages the private sector from actively taking this role, so it falls on autonomous, domestic, state-driven enterprises (banks and non-banks) to tackle the issue and fill the financing gap.

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