Financialisation and economic structure: a two way relationship

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Abstract

Financialisation is not a homogeneous process. To fully understand its characteristics and implications, it is essential to use an integrated perspective that considers the financial side of the economy and the productive characteristics of countries and the interactions among both. In order to do that, this paper bases its explanation on the ideas of Latin American Structuralism to enrich the understanding of financialisation phenomena in emerging countries. Financialisation does not relieve countries from the centre-periphery dichotomy; on the contrary, it reinforces it. By widening structural heterogeneity, strengthening specialisation in commodities, posing Balance of Payment constraints, limiting the space for industrial and fiscal policies or aggravating financial dependency and cementing the position of peripheral currencies. The analysis emphasises on the channels of transmission and the consequences of financialisation from the perspective of peripheral countries. The paper also claims that financialisation in the periphery takes a specific form according to its structural characteristics; the process is **selective** and **functional.** Selective, as it is focalised in some activities and actors, and functional, for maintaining the position of these countries in the world order, while unaltering internal political balances.

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1. Introduction

The world economy is characterised by a disproportionate increase in the financial sector vis-à-vis the real economy, extraordinary growth in financial wealth and financial innovation, and the FIRE sector (finance, insurance, real estate). That characterises the US and most of the OECD countries; the changes have been called under the word 'financialisation'. After the economic crisis in the developed world of 2009, there is a thriving interest in the phenomenon across social sciences, particularly among heterodox economists. Still, what financialisation means for developing countries is less studied, but there is a consensus that financialisation in those countries presents distinctive characteristics than in rich ones (Bonizzi, 2013; Karwowski, 2020).

Some authors have indicated that there are varieties of financialisation (Lapavitsas and Powell 2013, Brown et al. 2017). Part of the differences are based on commonalities among these countries institutions and integration into the global financial system. The differences are based on macroeconomic aspects (Engelen et al. 2010, Lapavitsas 2013, Lapavitsas and Powell 2013, Karwowski and Stockhammer 2017, Karwowski et al. 2019). Part is related to the fact that financialisation is externally driven (Lapavitsas 2009, Stockhammer, 2010), imposed by imperialists relations, characterised as a subordinated type of financialisation (Powell 2013, Powell et al. 2020). Measures were imposed favouring the interests of wealthy nations. As a result of capital account liberalisation, negative consequences such as high instability and economic crises were experienced (Dymski 1999, Arestis and Glickman 2002). Latin America acted as an experimental area for deregulation of capital accounts and financial rules, where policies were conducted under authoritarian regimes in the 1970s (for an analysis of the role played by International Financial Institutions and actors, see Déniz and Marshall, 2018).

Another crucial feature that shapes financialisation and the insertion in the international financial system is the position of a country in the currency hierarchy. Currencies from ECs (emerging countries) are located in the lower part of the pyramid, based on the inability to borrow in their own currency, so they need to engage in operations in US dollars, posing constraints on the balance of payment and economic growth (Becker et al., 2010; Lapavitsas and Powell, 2013; Kaltenbrunner and Painceria, 2015; de Paula et al. 2017). The impossibility of currencies from ECs to fulfil the traditional functions of money need to be compensated by high levels of profitability, which can be evident in the interest rate differentials to attract capital flows (Vernengo, 2005; Kaltenbrunner 2015, da Paula, Fritz, Prates 2017, Bonizzi and Kaltenbrunner 2019).

These explanations primarily focus on the financial and monetary specificities of EC's financialisation, overlooking the connection with the productive side, missing in that way that the integration of ECs into the global productive system also takes a subordinate role. Those who included the productive subordination looked at it from the US perspective without analysing what this meant for financialisation in ECs (Milberg, 2008). On the other hand, among the studies that incorporate some form of productive subordination (Powell, 2013) did it with a focus on those firms that internationalized by integrating into Global Productive Networks (GPN) (Bonizzi et al. 2020), but did not focus on how this implied changes for the entire countrie's productive structure, including those firms that are out of the international productive circuits. There are no studies that investigate financialisation with a focus on the effects in the productive structure, for example differentiating the economic sector affected, the consequences on value-added activities (high vs low value-added) or the impact on segmented labour markets. They usually treat ECs as homologous to central countries, missing in that way one crucial feature: the effects are not homogeneous.

The 'theory' adopted here indicates that financialisation in ECs must be understood in relation to the international insertion in the world economy, taking into consideration the productive dimension. Therefore, it is necessary to make the financial sphere and the structural characteristics of ECs dialogue. To construct an approach that analyses the interdependencies of finance and production, this paper adopts from Latin American Structuralists' writings concepts about technology, external constraints, and the macroeconomic policies followed to cope with business and financial cycles (Prebisch, 1949; Tavares and Gomes, 1998)[2].

[2] In Pérez Caldentey (2015), there is a detailed analysis of Structuralism's contributions in different periods by author.

According to the 1949 'manifesto'[3] of Prebisch, the level of development between countries, those classified as 'central' and 'peripheral', showed the characteristics of their respective economic structures. The theory's emphasis was given to the international insertion in the world; the periphery specialised in primary commodity production. The gains from trade were not equally distributed among both poles, rejecting the Ricardian comparative advantage discourses (Rodriguez, 2001). Commercial, technological, and financial dependency were critical aspects in explaining the conditions of Latin American countries, limiting development in the region (Furtado, 1973; 1984).

In terms of the productive dimension, and concerning technological capabilities and capital accumulation the world today can be interpreted as a two poles system (Ocampo, 2014). Technology is generated mainly in rich countries (Arocena and Sutz, 2000). Those growing faster include technological content in their exporting baskets where the ones relying on natural resources grow more slowly (Ocampo et al. 2009 and Hausmann, 2011). Intellectual property has become a key element, posing difficulties for countries willing to climb up the technological ladder (Cimoli et al., 2005). Latin America has a techno-productive lag, that it is reflected in the participation of engineering-intensive industries in the total industry, patents per habitant, or investment in R&D (Research and development) in terms of GDP (Gross Domestic Product). This is also true, when compared with emerging Asian countries and even with other countries that base their economies on natural resources (ECLAC, 2015 pp. 100). That is why authors as Andreoni and Chang (2021) consider, production is vital for development. In particular the type of production that enables structural change and economic diversification (see Ray, 2010). Nevertheless, we stay here that in order for a country to upgrade technologically, it is necessary to look at the productive side but also consider financialisation and the functioning of the international financial system.

3 Prebisch published the document "The economic development of Latin America and its principal problems" that became to be known as the "ECLAC Manifesto".

Financialisation is a new way of dependency and it is interlinked with the productive sphere, it has different implications for the centre and the periphery; and it needs to be analysed jointly. This paper combines two dimensions to analyse EMs countries position in the world economy (the productive and financial dimensions), trying to answer (a) how financialisation affects those countries' structural characteristics (in particular the productive structure), potentially perpetuating their subordinate position in the global productive system, and, more important how (b) the specific structural characteristics of Latin American economies matters for financialisation phenomena and the insertion in the global financial system. The analysis also considers the domestic institutional drivers and external ones related to economic agents' financial and productive behaviour.

When we refer to the productive structure we are referring to the composition of the output of a country in terms of the material goods and also services produced.[4] And the structural characteristics are related to its productive structure and those related with the type of integration into the monetary and financial system.

The rest of the paper is organised as follows: Section 2 includes an introduction to the financialisation literature. Section 3 contains the main ideas from Structuralists' writings that are relevant to analyse financialisation phenomena. Section 4 analyses financialisation from a Structuralist point of view. Section 5 concludes.

4 The productive structure generally refers to the 'the composition of the output of material goods. The economic structure includes, in addition, the production of various kinds of services, including public goods and services' (Hounie et al., 1999 pp 9). In order to simplify we will include in productive structure goods and services.

2. Financialisation

The use of the concept "financialisation" has increased over time, where most of the literature on the topic is produced by heterodox economists (Marxists, Post Keynesian and Regulationists)[5]. Here we follow the definitions from Epstein, who defines financialisation as the "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein, 2005, p. 3). Literature reviews on the topic concluded that the term had been used in several ways (Lapavitsas, 2014; Sawyer, 2014; Van der Zwan, 2014; Epstein, 2015). The research around financialisation is enormous; for the purposes of this paper, the focus will be on those aspects that relate directly or indirectly with the centre-periphery dichotomy and with the productive structure. For Lapavitsas (2014), financialisation is the result of profound changes in capitalist economies reflected on the transformation of non-financial corporations (NFCs), banks, and households. Here, the focus will be on the first two. Households will not be explicitly addressed unless they could impact the structural characteristics of the economy.

The massive increase in the financial sector came with a diversification of its activities and products with more influence globally (Boyer, 2000; Aglietta and Breton, 2001; Duménil and Lévy, 2004; Crotty, 2003; Stockhammer, 2004). The growth has been faster than the real economy, where financial profits to total profits increased (Stockhammer, 2010). The change is represented by the expansion of market capitalisation, turnover, and soaring debt levels in firms, households, and even in the financial sector. Besides, a mark of the new financialised system is the rise of new financial institutions (shadow banks), pension funds, private equity, and hedge funds (Adrian and Shin, 2010; Adrian *et al.*, 2010). Researchers identify a change in banks' business model, shifting away the lending focus from NFCs to households (Lapavitsas, 2009a). Also, an important part of their income comes from fees and commissions (Erturk and Solari, 2007; dos Santos, 2009).

5 Nowadays, financialisation is also present in mainstream publications (Englen, 2008).

Financialisation is global in its nature (Christophers, 2012). The new landscape results from active policies on an international scale: deregulation of the financial sector and capital flows, including the lift of interest rates ceilings. Consequently, there is a documented increase across the globe of external assets and liabilities (e.g., Stockhammer, 2010; Akyüz, 2014; Karwowski and Stockhammer, 2017). In Latin America, there is an increase in foreign inflows, outward and inward Foreign Direct Investment (FDI) (UNCTAD, 2014) and a rise in the search for short term capital gains. For Lapavitsas (2014), the international dimension of financialisation has a more substantial influence in developing countries, as these economies are more vulnerable to external conditions. In Latin America, foreign banks were promoted by Washington Consensus reforms, based on the idea that through competition, national institutions would increase their efficiency (Correa, 2006). As dos Santos (2013) argues, foreign banks are crucial in bringing into national economies financialised practices of rich countries, like aggressive strategies towards household lending. There is documented evidence of these practices in peripheral countries (Lapavitsas, 2009a; Gabor, 2012; dos Santos, 2013). The presence of foreign banks did not come along with a massive deepen in the financial system (Manuelito and Jimenez, 2010; de la Torre et al. 2012). Nevertheless, it is essential to analyse financialisation as a process, looking at the level and trajectory (Fernandez and Aalbers, 2020).

In addition, households resorted to financial markets to finance the provision of public goods and services due to the retraction of welfare states (Streeck, 2017). The reorientation of the business strategies of banks fuelled household debt (among others Lapavitsas, 2009a, Gabor, 2010 and 2012; Ashman *et al.*, 2011; dos Santos, 2013; Karacimen, 2016; Karwowski and Stockhammer, 2017) and real estate booms (Aalbers, 2008; Robertson, 2016). Also, households are linked with financial markets by the asset side of their balance sheets, by pensions and insurances (Lapavitsas 2009b); in Latin America, Chile is an extreme example of it.

Financialisation reflects not only the transformations within the financial sector but also in relation to others (Stockhammer, 2004). In the case of NFCs, some of the changes in the behaviour had been called under the term 'shareholder value orientation'; those changes are related to the reward structure of top managers, changing priorities, and focusing on short-term strategies and profitability levels. That implied a closer relation of NFCs with the financial sector on a national and international scale (Lazonick and O'Sullivan, 2000; Crotty, 2003; Stockhammer, 2004; Hein, 2015). Boyer (2000) named the regime a 'finance-led accumulation regime', characterised by changes in investment behaviour with a redistribution detrimental to labour favouring shareholders.

The international dimension of financialisation is the most important when analysing financialisation in EEs. The surge in cross border flows (Stockhammer 2010) induced by external forces (Lapavitsas 2009) imply massive impacts for domestic economies. The understanding of EE financialisation is called under the concept of subordinated financialisation (Bonizzi et al. 2020, Kaltenbrunner and Painceira 2018, Alami 2019). The change do not only reflect an increase in the quantity of this flows, it is also qualitative, with different players integrated into international financial markets inducing financial innovation (Bortz and Kalternbrunner, 2017). One aspect that is a landmark of this period is that the size of institutional investors are so huge in comparison of a country's economy.

Movements in capital flows are more dependent on external conditions than on the fundamentals of peripheral economies, high liquidity and low-interest rates in the rich world made enormous amounts of capital available in ECs, attracted by higher domestic interest rates. ECs have to offer high-interest rates to compensate for low liquidity and high-risk environments (Paula et al., 2017; Fritz et al., 2018). When an event ends this optimistic trend, the cycle reverses, uncertainty increases, and there is a 'flight to quality' movement where capitals leave peripheral countries. Investors usually migrate to positions in currencies that offer greater liquidity and stability. Uncertainty generates a deceleration of economic growth, ending usually in economic crisis, and 'sudden stops' end in mayor depreciations.

With free capital mobility, these countries are constraint by the decisions of central countries, so even when displaying a free-floating exchange regime, countries cannot apply monetarily policies as they are dependent on the risk perceived by global investors. Small developing economies face a macroeconomic dilemma, not trilemma[6]

[6] The case of the trilemma, states that under free capital mobility, countries can apply independent monetary policies if they leave the exchange rate to float.

(Rey, 2013). In peripheral economies, central banks do not allow completely free-floating exchange rates, they intervene, but without setting a fixed rate; this is called ‘dirty floating.’ In that way, they try to stabilize exchange rates (interventions are not free from pressures from national actors, like exporters).

In the last years derived from QE (Quantitative Easing) programs, high availability of cheap capital, flew to ECs buying assets, sovereign bonds and currencies (Bonizzi and Toporowski 2017). Due to inflation targeting regimes in the region with opened capital accounts and floating exchange rates (Frenkel, 2006), central banks needed to engage in sterilisation strategies to control inflation, increasing the offer on public debt securities. These instruments were bought by banks and investment funds, expanding in that way their balance sheets (Kalternbrunner and Painceira, 2017). Aggressive strategies towards household lending implied more household financialisation and a hike in asset prices; this dynamic resulted in more financial fragility (a la Minsky, 1978). In addition, central banks accumulated reserves to cope with changes in financial cycles and liquidity cycles in the centre.

In order to build up the understanding of financialisation in the context of peripheral countries, the following section states the most relevant aspects of Structuralism. This theory indicates that changes in the capitalist economy must be analysed in the context of the centre-periphery dichotomy, as economic phenomena can entail profound differences among them. We understand that financialisation is one of these changes.

3. Structuralism: characteristics of peripheral economies

Latin American structuralism is the most outstanding theoretical contribution to economics and social sciences from the global south (Rodriguez, 2001). According to the international division of labour, the theory reflected that the world is divided into two poles: the centre and the periphery. Both possess distinctive characteristics regarding capital accumulation and technological progress, where the periphery is dependent on the technology that is originated in the centres. The periphery is heterogeneous because labour productivity is high in the exporting sector; meanwhile, the rest of the economic sectors are stagnant, and the economy specialises in few commodity goods. In the centre's case, it presents high levels of labour productivity across economic sectors and produces a wide range of goods with inter-sectorial complementation and integration across economic activities (Rodriguez, 1980). Latin America, in this classification, is a peripheral region. Economic relations between both poles tend to reproduce the conditions of underdevelopment in the periphery and increase the distance between them because central countries appropriate most of the fruits of technical progress.

According to ECLA, the pattern of specialisation is the cause for external imbalances (Hounie et al., 1999). Related to it comes a second key concept of the theory, the secular decline in the terms of trade. The Prebisch-Singer hypothesis indicated that terms of trade between the price of products exported by the centre (industrialised products) and the periphery (commodities) tend to decline over time. They challenged the idea that technological progress will lower prices in the industrial sector in relation to commodities. The secular tendency of the terms of trade to deteriorate is based on arguments related to commodities' characteristics and countries' characteristics (Erten, 2011).

Arguments around commodities include Engel's law, which establishes that the demand for food increases in a smaller proportion when income increases. So, if income rises at a world level, food producer countries will face a fall in demand in relative terms. Also, the price elasticity of demand for commodity products is smaller.

As income expands, the demand for commodities grows less than in the case of industrial goods and, the relative price is less favourable for these goods. Then, peripheral countries need to export a growing amount of goods to keep up with the increased value of industrial exports (Rodriguez, 1980). Besides, commodity products can be substituted by synthetic products, competing for demand.

The rest of the arguments are related to the country's conditions, which are different in the centre and periphery. According to Prebisch, there is surplus labour in peripheral labour markets because of the difficulties of industrialising and migrating to industrial countries. Trade unions are weaker than in central countries. In contrast, in rich countries, powerful unions and no surplus labour guarantees that prices are set with a mark-up on costs. Consequently, wages in the periphery grow less concomitant with price increases. Also, rich countries tend to protect their primary domestic markets, shrinking market sizes. Lastly, the necessity of peripheral countries of importing goods to industrialise makes the industrialisation process more complex. It results in a rise in the price of capital goods when many countries want to buy these goods. The process is exacerbated by international agencies promoting exports without coordination (Singer 1998 in Erten, 2011). That is why commodity production is related to underdevelopment. Erten (2011) indicates that Singer in the 1970s called for a change in the focus of the debate related to the terms of trade, from products to countries. That was because even commodity-producing countries tend to increase the amount of processed goods they trade, at a country level, the evolution in developing countries' trade terms vs. developed ones can still be detrimental for the former ones.

Another crucial aspect introduced by Structuralists is the role of economic cycles. In opposition to Neoclassic economics that focused on equilibrium and the transition to equilibrium, for Prebisch (1949), cycles are inherent to capitalist economies. They have an essential function in the capitalist system. Cycles have different manifestations in both poles; they are originated in the centre and translated into the periphery and are the driver of economic growth in connection with productivity increases. In the upper part of the cycle, the rise in demand for goods in the centres cannot be satisfied by supply, so profits start to increase, and at some point, they generate a rise in prices, correcting in that way the excessive demand.

The rise in profits in the centre is translated into higher demand for peripheral products. This demand impacts commodity prices in the periphery; the magnitude will depend on the time-response of production and stock availability. Overall, commodity prices tend to increase more than industrial ones. Moreover, once exports increase, domestic activity starts to grow and employment and income levels. With the rise in income levels, imports start to increase. In the descending phase, the opposite occurs, the fall in exports lowers income and employment, with the consequent decrease in imports. Besides, commodity prices decline more than industrial ones. The explanation for these price movements (commodities vs industrial prices) is related to the flexibility in both economic systems. In the centres during the upward phase, firms compete for workers, and unions push for increasing wages. But, during the downward phase, there are rigidities for the decrease in wages. However, this does not hold in the periphery, as working forces in primary production have not the same levels of organisation as in industrial countries, so the effects are not symmetric. The asymmetry is related to the higher union organisation of manufacturer workers and related to industrial markets' greater power in setting prices. As Prebisch puts it, the smaller the compression in income in the centre (profits or wages), the more significant it must be in the periphery. That is crucial because industrial centres can then retain the fruits of their technical innovations, and, they can retain part of the technical progress of the periphery.

The main policy recommendations made by ECLA in the 1950s is state-led industrialisation. The process of industrialisation did not disregard the upgrade of technological content of primary production. On the contrary, it was essential to raise living standards and to incorporate equipment, machinery, and instruments to take advantage of technology. Besides, the periphery needed to import capital goods, so any improvement in the exporting sector was crucial for obtaining US dollars. A long-term strategy for development must consider economic cycles as peripheral incipient industries are vulnerable to fluctuations and contingencies in the centres. Therefore, anti-cyclical and industrial policies need to be implemented together. However, these policies are challenging to implement as the necessities for infrastructure are particularly important, and the political costs are high.

Nevertheless, industrialisation must be conducted in a way that can counteract its own limits. If industrial growth implies a significant increase in consumption or an early decrease in the productive effort, that can hinder the social purpose of industrialisation. Therefore, it was important to adapt the pace of imports to the payment capacity given by exports. That was a crucial aspect as Latin American industrial strategy depends on the decision of other countries to buy their products. According to his analysis, in most Latin American countries, spontaneous savings were insufficient to cover their most urgent capital needs so that foreign investments could contribute to increasing productivity per worker.

Seminal works from Prebisch about business cycles in the periphery (1921) stressed that they were connected with the place in the international monetary system and were caused by an unstable international capital market. Speculative bubbles resulted from an asymmetric monetary system, where developed countries impose conditions for the rest of the countries (Lampa, 2021). When working at the Central Bank of Argentina, he pushed for contra-cyclical monetary policies to reduce external volatility. According to him, if risk aversion and interest rates were low in the centres, international loans triggered monetary expansion and a hike in imports in the periphery, worsening the Balance of Payments and pushing for extra loans. In addition, domestic banks expanded the capital spent in speculative activities, and with that, financial fragility increased. When something initiated a reverse in capital flows, that meant a crisis for the periphery. He aimed at imposing capital controls and increasing the level of reserves levels to use in times of capital outflows. He also stressed the necessity of cutting bank credit during the upper phase of the cycle. His observations were the opposite of mainstream economists'; for him, capital volatility in the periphery was a structural and permanent characteristic. Prebisch also prescribed a set of economic reforms to increase the use of local currencies, reduce the dollar dependence based on bilateral payment systems, and create a type of central bank from various nations to be a lender of last resort to decrease the political subordination. This type of measures complemented the industrialisation recommendations focusing on substituting imports to be less dependent on US dollars.

Structuralists ideas highlighted here are the contributions in which this paper will build the nexus with financialisation. The key concepts for the analysis of financialisation from a peripheral point of view are the centre/periphery dichotomy, heterogeneity and the pattern of specialisation, declining terms of trade, and the fact that relations between countries are asymmetrical, where business and financial cycles are originated in the centres.

4. Financialisation and structural characteristics a two-way relationship

Financialisation affects the economic structure of peripheral countries, and it is affected by it. It is a two-way relationship. The economic structure comprehends the productive structure (the composition of the output of a country in terms of the material goods and also services produced) and the financial one (the type of integration into the monetary and financial system). First, we present the effects of financialisation in the economic structural characteristics, it is shown how financialisation can reinforce the subordinated position of peripheral countries (productive and financial). Second, a more novel path, which analyses how the economic structure influences the 'nature of financialisation' of peripheral countries, where the direction goes from the economic structure to financialisation. This section will formulate questions for a further research agenda to comprehend from a Structuralist point of view the financial dynamics in ECs.

4.1 From Financialisation to the structural characteristics

Financialisation influences the economic structure exacerbating the subordinated position of peripheral countries in the global economy. The economic structure characteristics' includes those derived from the integration into global productive system, shaped by the international division of labour (productive structure), and those linked with the integration into the global financial and monetary system (financial structure). We present two main channels through which financialisation affects the economic structure: the real channel and the financial channel. The real channel includes how financialisation through real investment, commodity prices and Balance of Payment constraints impacts the productive structure, deepening heterogeneity and specialisation in commodities and raw materials. Regarding the financial channel, on the one hand, through the lack of financial resources available for real investment and by limiting the space for industrial and fiscal policies the productive structure is affected; on the other hand, capital mobility and cycles of capital that are originated in the centres and translated into the periphery aggravating financial dependency and cementing a lower position in the currency hierarchy.

4.1.1 Real channel: real investment and R&D

Financialisation can directly impact the productive structure by shaping the behaviour of productive firms concerning investment in capital stocks and R&D and by changing the macroeconomic environment in which they operate. In particular, agendas towards privatisation, the achievement of fiscal balances and the adoption of independent monetary policies while increasing commercial and financial integration are the main features of the macroeconomic environment.

We can distinguish three ways in which finance affects the firm's behaviour: the increase in the tenancy of financial assets and profits derived from financial activities, the shareholder-value orientation, and access to funding. In relation to the first one, the financialisation literature refers to NFCs increasing their activities in financial markets, a marked trend to hold financial assets that generate revenue sometimes more profitable than those obtained with real investment (Krippner, 2005; Orhangazi, 2008). That can imply that financial investment crowds out real investment (crowding-out hypothesis). That is also related to the shareholder value orientation, by which companies are more focused on shareholders' interests' over stakeholders (Van der Zwan, 2014). Managerial changes, led by the shareholder value orientation, tied managers' interests with corporations by paying based on performance. The literature also points towards the transfer of companies' earnings by interest and dividend payments to shareholders and the increase in buyback operations to boost companies share prices (Froud et al., 2000; Lazonick and O'Sullivan, 2000). Leading

companies focus on the extraction of value rather than on its creation, discouraging investment in capital stock or R&D, as the benefits are long-term.
The third is related to the capacity of the firm to access external funds to finance real investment. In the case of ECs, access to finance is crucial for investment, the lack of innovation and investment can be related to problems in capital markets (moral hazard, incomplete information, etc.), and debt can have a positive impact if funds are used in buying assets or investing in intangibles. In addition, the literature on financialisation showed that banks changed their business strategies, moving away from lending to companies, making it more difficult for companies to access funds. Nevertheless, higher levels of indebtedness were used to buy financial assets.

The changes highlighted in the financialisation literature resulted in a decrease in capital stock, employment, and spending in R&D. In developed countries, using country data, Stockhammer (2004) linked financialisation with the slowdown in capital accumulation for the US, UK and France. Also, researchers linked financialisation with a slowdown in real investment at a firm level (Orhangazi, 2008; Onaran and Tori 2016). Also, there is evidence of the same pattern for ECs (Demir, 2007; 2009). Soener (2021), with publicly traded information of NFCs, showed that real capital accumulation has fallen over the past 30 years for the 37 countries in his sample. Nevertheless, little evidence was found that this drop is due to financial accumulation, as the relative value of financial assets and financial income decreased. However, shareholder distributions were boosted over time, particular amongst American corporations. He connects financialisation with the strategy to internationalise by big companies. Rabinovich (2019) found that financial accumulation rates in the US are not as great as previously believed, questioning the crowding-out hypothesis. Nevertheless, he showed how companies use funds in buyback operations.

The innovation processes are also hindered by financialisation; investing in R&D is riskier than investing in capital stocks. The pressure of shareholders in obtaining benefits in the short-term is not compatible with long-term innovation (Lazonick and Mazzucato, 2013; Dosi *et al.*, 2016). Lee *et al.* (2020) found that financialisation affected the quality of innovation for OECD countries, making it less radical but more abundant. Financial markets rewarded companies with more patents, so NFCs focused on patenting short-term innovation to access funds. For ECs, the story is quite similar. Jibril *et al.* (2018) found that when Brazilian companies relied more on financial assets and financial profits, they invested less in innovation. More generally, Chena *et al.* (2018) showed that the expenditure in R&D declines with financialisation in Latin American countries.

The fourth way in which financialisation affects the productive structure is related to the macroeconomic environment in which firms are operating. Financialisation can lead to more uncertainty, and volatility in financial markets makes it more difficult for firms to invest intangible assets. This type of investment entails risk and needs longer horizons (Stockhammer, 2008). That made firms relocate resources into less productive activities (Arcand et al., 2012). Financial shocks in the short-term can affect the direction of real investment, therefore, the productive structure (Cimoli et al., 2020). In addition, the finance-led accumulation regime relegates the state's role in the productive sphere affecting innovation and investment (Boyer, 2000). In Latin America, due to Washington consensus policies, many indigenous technologies that were created locally in public firms were smashed. Privatisation policies sold firms to private owners, usually foreign, that were not interested in sustaining research and development activities in the region. In addition, a catching-up transition period needs active policy measures that can be opposed by the financial sector (Andreoni and Chang, 2019). We can call this mechanism 'short-term bias'; this can configure a fifth way in which financialisation affects the productive structure.

Previous studies of financialisation assessed the impact of financialisation in ECs as if they were similar to those in wealthy nations. The fact that finance can affect a firm's behaviour by crowding out real investment and re-orienting resources to satisfy shareholders or by the capacity to access funding for long-term investment can lead to different effects in the centre and in the periphery. As discussed in Section 3, structural heterogeneity indicates that there is a variation in productivity between firms; productivity is high in the periphery in the exporting sector (commodity exporters) while low on others. If the decrease in investment is concentrated on sectors with low productivity but trying to improve and catch up with their counterparts, financialisation can hinder this path. We argue here that it is crucial to assess the 'composition effect'. The overall effect of financialisation in a peripheral country will

depend on the sector or activity that is affected, if the activities are technology-intensive and add value to their products and in which sector is located (primary or manufacturing, for example). If financialisation is linked with deindustrialisation strategies, this could pose additional risks for peripheral countries. From Structuralist and Neo structuralist writings, the role of industrialisation and the value-adding process is vital. Countries that industrialised first developed technologies and acquired dominant positions in manufacturing production. So, if financialisation impacts technological capabilities, it affects industrialisation as well.
Moreover, countries experiencing premature deindustrialisation suffer the risk of experiencing vicious cycles of underdevelopment (Andreoni and Chang, 2019). Premature deindustrialisation refers to the fact that developing countries are transitioning to a service type of economy without having gone through a complete industrialisation process (Rodrik, 2016, pp.2). Manufacturing activities are beneficial for economic growth, as it is a technologically dynamic industry, showing unconditional worker productivity convergence. Second, historically it absorbed substantial amounts of unskilled labour, distinguishing it from other high-productivity industries like mining or finance. That is very important for the region. The deindustrialisation trend also affected advanced economies through employment loss, but they perform pretty well in terms of output share (when adjusting for prices, income and demographic trends, see Rodrik, 2016). In Latin America, with deindustrialisation, informality has grown, and productivity has suffered.

Exporting companies or public companies, in general, have more sophisticated structures, but small and medium-sized manufacturing firms, which are dominant in the economic landscape, present lower levels of productivity and a smaller capacity to innovate. If this last type of company absorbs the effect, the difference with the rest can increase. On the contrary, if exporting companies absorb the effect, this could decrease productivity, resulting in a more homogeneous structure. However, on a world scale, this widens the productivity distance with central economies. More research is needed; it matters the size of the impact compared to the rest of the economy and with the centre. If financialisation affects long-term investment and radical innovation, the deterioration in employment conditions or wages in the formal sector can be detrimental to aggregate demand. Therefore, financialisation can be a powerful force preventing structural transformations.

4.1.2 Real channel: terms of trade and balance of payment constrains

Unlike industrialised countries, Latin American countries mainly export raw materials or commodities[7]. Financialisation affects commodity prices, resulting in changes in resource allocation and productive strategies. From a structuralist point of view, periods of economic expansion in the core are followed by higher demand and commodities prices, and commodity prices tend to move more abruptly in the upswing and downswing than industrial ones (Prebisch, 1949). Nowadays, commodity market movements are derived from supply and demand-side reasons and related to financial motives, affected by the financialisation of commodities and through global financial conditions (Akyuz, 2020). Commodity products were treated as financial products and included in international portfolio investment baskets (Gilbert, 2010; Akyüz, 2012). For example, after the 2000s, institutional investors promoted commodity futures as 'safe' because of the low correlation with stock returns (Tang and Xiong, 2010). They acted as an asset class, like securities, attracting lots of capital and speculation. In addition, indices managed by massive hedge funds, like Black Rock, included stocks and bonds from commodity-producing firms (van Huellen and Abubakar, 2021). Besides, investment banks are linked with derivatives and even invest in physical commodities (Isakson, 2014). Commodity prices showed a boom-and-bust trajectory in the last decade.

Price increases are a powerful motivator to improve output and shift resources to profitable sectors (UNCTAD and FAO, 2017). Commodity prices are also affected by global financial conditions, especially capital flows. Expansionary monetary policies in the centre (low-interest rates and a weak dollar) induce capital flows into the periphery stimulating the surge in commodity prices. Hikes in commodity prices and capital inflows have been moving together on several occasions since the 1970s (Akyuz, 2020). In addition, it is worth mentioning that most countries in the periphery are price takers (ECLA, 2012) (one aspect that is an indicator of productive subordination). Most commodities contracts are settled in US dollars, even when they sell the goods to other peripheral economies (an indicator of monetary subordination, reflecting their place in the currency hierarchy). An increase in commodity prices

[7] With the exception of Mexico.

induces indebtedness, especially in the sector benefited by the boom, and can help to expand investment. The inflow of money favours producing sectors directly or indirectly, also consumption and higher tax revenues. In addition, the increase in foreign exchange earnings can appreciate the local currency, the real appreciation of the local currency can have an unwanted effect on competitiveness ('Dutch disease'). Deindustrialisation or no growth in the manufacturing sector can be a side effect (Poncela et al., 2017).
Terms of trade, which directly relate to commodity prices (FAO and UNCTAD, 2017), are very relevant to the continent's economic conditions. There is a documented impact on shocks of these variables in economic activity: production, investment, trade balance and in others like inflation and the exchange rate (see Peláez and Sierra, 2016 for a review). Shocks in terms of trade can harm economic performance, and there is evidence that those shocks account for a significant portion of the difference in growth rates between countries (review on FAO and UNCTAD, 2017). Commodity price shocks may also affect debt sustainability, particularly in countries where public finances are reliant on commodity export income.
Related to this specialisation pattern, the Balance of Payment Constraints constitute a significant force that affects Latin American economies. Commodity booms induce GDP growth, but the tension on the balance of payment emerges; consumers want to buy products not produced in Latin American countries, in particular elites (Presbich, 1949). Income elasticity of exports is low compared to imports, so when there is an increase in the GDP in the region, an unbalance emerges; periods of high economic growth come with substantial trade deficits. In the short run, deficits can be financed with capital inflows, but in the long run, the productive structure must change (Bértola, 2015). These countries cannot finance sustained deficits by issuing their own currency; the growth rate must be sustainable with the relationship between export growth and income inelasticity of imports (Thirlwall, 1979).

There is an agreement in the literature that the super boom in commodity prices ended, and the expectation is that it will remain in that way for some years to come (see Akyuz, 2020). So, could it be the case that a decline in commodity prices implies a re-industrialisation strategy in the periphery? That does not seem easy, as industrialisation needs long-term investment and active policies. Also, pro-cyclicality in credit can make it challenging to obtain funds to finance industrial strategies plus other constraints in policies strategies imposed by financialisation.

4.1.3 Financial channel: capital mobility and availability and policy space

Financialisation is a vehicle for more capital mobility and introducing new players and products into financial markets with objectives that are not always aligned with economic growth, stability or productive diversification. Financialisation practices increase uncertainty and the intensity and frequency of currency and financial crises in the periphery. Financial globalisation intensifies the contagion of global shocks in national, leaving less space for governments to conduct macroeconomic policies. In that way, it helps to cement the position of peripheral countries in the international monetary system and their place in the currency hierarchy, as they are seen as short-term places to invest with currencies that are ranked low and for whom it is difficult to climb due to this dynamic. In addition, all of these also has profound impacts on the productive structure. Instability, the lack of funds for productive investment or the shrinking in the policy space for conducting fiscal or industrial policies cement their position in the global productive system.

As we discussed in section 2, the international dimension of financialisation shows that cross-border capital flows are responsible for transmitting shocks worldwide, particularly in relation to property markets or domestic credit (Arestis and Glickman, 2002 and Akyuz, 2014). Movements in capital flows are more dependent on external conditions, typically on the conditions in central economies such as high liquidity and low-interest rates than on the fundamentals of peripheral economies (Andrade and Prates, 2013; Kalternbrunner and Painceira, 2017). This dynamic has been largely discussed in the literature (Bresser-Pereira, 2008; Ocampo, 2016; Paula et al., 2017; Fritz et al., 2018, Cimoli et al., 2020).
These dynamics cements the perception of these economies as highly unstable when comparing with the US or central economies. Investors do not invest long-term for fear of sudden changes. Domestic variables are subject to contagion because of the interconnectedness of the international financial system. Sustained periods of appreciation followed by depreciations have effects on competitiveness and on balance

sheets. The same is true for high interest rates. All these aspects reinforce the position of the countries in the global financial system and the pyramid of currencies, acting as a self-fulfilling prophecy. First, based on the risk perception, contracts of international investors are set mainly in US dollars; the same happens with import and export contracts, reinforcing the use of foreign currencies. Second, related to high levels of inflation or sudden movements on the exchange rate, for local agents, it is challenging to trust in their own currency as a store of value; therefore, several Latin American countries deposits are hoard in hard currencies, typically US dollars. Third, it is difficult to access external sources of credit in their own currency, so agents that have income in local currencies are indebted in US dollars ('original sin', Eichengreen and Hausmann, 1999); this had massive consequences derived from these currency mismatches, banking crises of Argentina and Uruguay in 2001-2002 are an example of it. Fourth, peripheral countries have higher external liabilities when comparing to external assets (Akyuz, 2020), generating an outflow of financial income from the periphery to the centres. Indicating that the gains from financialisation have not been equally distributed among both poles, enhancing the opportunities for the centres.

The effect that these conditions have on the periphery are significant. ECs have to offer high-interest rates to compensate for low liquidity and high-risk environments (Paula et al., 2017; Fritz et al., 2018). That impacts directly on investment as it is more expensive to finance production through indebtedness. In addition, capital inflows can generate exchange rate appreciations, affecting asset prices and real wages, with short periods of rises in investment, consumption and external debt. However, when there is a reversal in the cycle ('flight to quality'), capitals leave peripheral countries. Investors usually migrate to positions in currencies that offer greater liquidity and stability. The reversal affects not only the financial dimension but the real one. Deceleration of economic growth usually ends in economic crisis and significant depreciation, transforming production and consumption patterns and even generating changes in ownership structures (Fischer, 2015). In Latin America, the macroeconomic policies were not oriented as in Asia in controlling capital flows or pegging exchange rates to promote economic diversification and economic productivity; the prioritisation was on controlling inflation and macroeconomic equilibrium (Cimoli et al., 2020).

In the last years, derived from QE (Quantitative Easing) programs, the influx of capital bought assets, sovereign bonds and currencies (Bonizzi and Toporowski 2017). Central banks needed to engage in sterilisation strategies to control inflation, increasing the offer on public debt securities. These instruments were bought by banks and investment funds, expanding their balance sheets (Kalternbrunner and Painceira, 2017). Aggressive strategies towards household lending implied more household financialisation and a hike in asset prices; this dynamic resulted in more financial fragility (a la Minsky, 1978), potentially reinforcing the dynamic described paragraphs above. Central banks accumulated reserves to cope with changes in financial cycles and liquidity cycles in the centre. That is a typical macroeconomic accommodative policy in Structuralist terms. According to Lampa (2021), central banks treat capital flows as risky, the same as Prebisch did in the Central Bank of Argentina. This strategy came with high costs for ECs when comparing the remuneration paid on domestic instruments vs international reserves that do not receive or receive low remunerations (Rodrik, 2006)[8]. That resulted in fewer resources available for other purposes.

Financialisation, through the financial channel, the lack of resources available for productive investment affected the productive structure. The finance-led type of capitalism excluded finance for productive purposes, the financial sector benefited some high profitable sectors like construction and real estate, financially excluding firms (Favreau and Pérez Caldentey, 2019). In addition, development banks were debilitated as a result of neoliberal policies. Moreover, cuts in government spending to sustain 'sound' fiscal policies made fewer resources available for this type of activity. The lack of funds goes in hand with higher returns in the financial sector and its attractiveness versus real investment. In Latin America, Torija and Gottschalk (2018) found a rise in financial assets and high levels of leverage and an increase in the distribution of profits in Chile and Colombia. There is also evidence of national firms engaging in speculative activities (Demir, 2009; Rethel, 2010; Levy-Orlik, 2012; Correa *et al*., 2012; Powell, 2013) and carry trade operations (Kaltenbrunner and Panceira, 2017; and Bruno and Shin, 2015). NFCs from emerging countries have

[8] Some scholars defend this strategy (see Bortz, 2018).

expanded their exposure to international financial markets, looking for investment opportunities abroad and taking debt in foreign currencies (Botta *et al*., 2014).

Another implication of financialisation is related to the policy space available for developing countries to conduct economic growth policies and the upgrading of domestic industries (Chang, 2002; 2021). First, suppose ECs want to conduct active industrial policies to protect infant industries. In that case, they need foreign reserves, and countries rely on those reserves to control speculative attacks on currencies and preserve economic stability. The second one is related to the role of international institutions, the World Trade Organization, rating agencies, and the margin of manoeuvre they permit for a country to conduct their policies. Directly they are affected by multilateral and bilateral trade agreements (Wade, 2003) and indirectly by the possibility of rating agencies downgrading the qualification of government bonds if countries do not engage with 'sound' fiscal policies (Streeck, 2014).

To conclude this section, financialisation does not alleviate the centre-periphery division; on the contrary, it exacerbates it by affecting structural heterogeneity, imposing Balance of Payments constraints, enhancing commodity specialisation, or restricting the space available for industrial and fiscal reforms. Financialisation deepen economic volatility bringing more capital mobility where ECs cannot cope with those effects. All these aspects reinforce the position of the countries in the global financial system and in the pyramid of currencies.

4.2 Relation from the structural characteristics to financialisation

This section tries to disentangle how financialisation is characterised according to the structural features in the periphery. That means focusing on which actors are engaged in those practices, the reason for doing it, and the consequences. It presents how heterogeneity and the specialisation pattern shapes financialisation. Second, how economic cycles of capital and the terms of trade affect the periphery financialisation' style according to the place in the global financial and productive system.

4.2.1 Heterogeneity

As presented in Section 3, structural heterogeneity is a main characteristic of Latin American economies. It can be seen by the diverse levels of productivity among firms with different sizes and qualifications between workers. The periphery is heterogeneous because labour productivity is high in the exporting sector; meanwhile, the rest of the economic sectors are stagnant, and the economy specialises in few commodity goods. In the centre's case, it presents high levels of labour productivity across economic sectors and produces a wide range of goods with inter-sectorial complementation and integration across economic activities

In the periphery, small firms represent a massive proportion of the productive structure regarding employment, most firms present productivity levels below average and limited ability for innovation. The productive structure is simple, with some exceptional dynamic nucleolus usually related to GVCs (Global Value Chains) or state-owned firms. Most of the small and medium firms are disconnected from dynamic poles (Bértola 2015, pp. 279). In addition, most countries of Latin America present underdeveloped financial systems with low intermediation and are focused on short-term financing instruments. Firms encounter difficulties accessing financial services, even to the banking system (Manuelito and Jimenez, 2010). That is a stylized fact in the region, especially for small and medium-sized companies (see Stallings, 2006). According to the OECD (2013), small and medium-sized companies provide around 80% of jobs where only 15% of the credit is provided for this type of firm. Economic reforms did not come along with credit availability for many ECs; finance for productive purposes is scarce, especially for manufacturing (Naqvi, 2018; Favreau and Pérez Caldentey 2019).

In Latin America, only a small number of firms possess high productivity levels and can compete internationally, and those firms potentially have access to international capital markets (and domestic ones). Galindo and Schiantarelli (2003), found that for NFCs, access to finance depends not only on the balance sheet characteristics but also is more accessible for larger firms, foreign-owned or associated with a business group. Size is a variable also positively associated in Demir's analysis (Demir, 2009).

Presbitero and Rabellotti (2016) found a positive association between labour productivity and having better access to finance[9]. Access is still difficult, so we argue that financialisation has been **selective** within the Latin American context. In microeconomic terms, there is a particular type of firm prone to financialisation, those NFCs that are productive enough to operate in international markets. The orientation of financial deregulation schemes, and financialisation in general, has not been focused on enhancing productive firms across the board nor came accompanied by industrial or developmental plans.

The type of firm that can access financial markets is one that is good enough to compete internationally, NFCs that are large or productive enough to be part of it. Multinational Corporations (MNCs) and diversified business groups are the most important feature of the type of capitalism present in Latin America. Both types of firms are the responsible for mobilizing investment and are connected in a particular way with financialisation. For Roos Schneider (2013) Latin America has a type of capitalism that can be described as 'Hierarchical', where firms are controlled by wealthy families or foreign powers. The type of governance characterized by the relation between managers and family owners or with the headquarters of MCNs, is hierarchical, in relation to technology transfer, suppliers and customers relations. Business groups are a way of coping with economic volatility, as they can adapt fast by changing strategies, hiring, or firing workers faster than other firms. In addition to the ownership structure, where financial markets are not very deep, it is challenging to create a culture orientated to shareholder value (Torija and Gottschalk, 2018). High concentration levels lead to a more 'closed' system, where shares do not usually entitle the right to vote (for a detailed analysis, see Claessens and Yurtoglu, 2013 and OCDE, 2015). This is a main difference with rich countries' type of financialisation.

That does not imply that NFCs in ECs do not present signs of financialisation, there is evidence that some Latin American companies increased their amount of financial assets (Torija and Gottschalk, 2018); for example, engaging in carry trade operations (Kaltenbrunner and Panceira, 2017; and Bruno and Shin, 2015). The type of firm that can invest in profitable financial assets or use financial products to hedge against

[9] In the case of Turkish firms, Akkemiek and Ozen, 2014, found a positive association between financialisation and the size of the firm.

volatility, possess an advantage over the rest, favouring a concentration process, thus reinforcing heterogeneity. Still, we need a better understanding of these firms, a characterisation of the economic sector they are in, the size, and the links with national and international firms to assess the impact on the productive structure. Nevertheless, we can argue that those firms that can take advantage of financialisation are those that, in a way, are the strongest within countries.

4.2.2 Specialisation pattern

The type of goods and services produced in the periphery, the specialisation pattern, relate national economies with the world economy. The role of two actors is key in maintaining the countries' position in the world division of labour, Transnational Corporations (TNCs) and national elites. We will present how the specialisation pattern cohabits, or creates, a particular type of financialisation.

TNCs have an essential role in intensifying labour division across the globe where the periphery focuses on natural resources or cheap labour. This aspect has been largely addressed by Structuralists and Dependentists (Furtado, Cardoso and Faletto, Prebisch, among others). Through GVC, there is intense competition among the lower value-added parts of the pyramid, with low wages and profit margins, typically located on the periphery. In the upper parts, innovation is produced, and finance and marketing activities are located. This type of division is based on controlling technology and property rights at the top (Medeiros and Trebat, 2016). Multilateral and bilateral agreements assure monopolistic positions for TNCs, so developing countries have difficulties escaping from the lower levels of international technological hierarchies. The position in the hierarchy is determinant for benefiting from innovation and being able to profit from it. According to Cimoli *et al.* (2005), a dominant position in the hierarchy guarantees "the control of knowledge de-codification mechanisms" (p 34), determining the access to knowledge and the capacity to spread it across the rest of the productive structure. According to Fischer (2015), even Southeast Asian countries that incorporated more technological capacities are trapped in subordinate positions in the international production structures.

Hierarchical capitalism has a competitive advantage derived from commodity production, related to natural conditions and a type of institutions that exploit these advantages (Roos Schneider, 2013). Also, MCNs and business groups did not demand considerable amounts of skilled workers nor investment in R&D, even when compared with business groups in other countries such as Korea or Sweden. That discouraged workers from investing in education or other abilities[10]. Financialisation is compatible with this pattern of insertion in the global productive system, that is why we called **selective** and **functional**. It did not help the periphery to upgrade technologically, on the contrary, through the neoliberal agenda facilitated corporate mobility and made it easier for TNCs to shift profits to low tax jurisdictions, increasing rents for these firms. TNCs have been pushing for the appearance and diffusion of GVCs, through the re-design of international rules to protect their extractive practices (Medeiros and Trebat, 2016; Andreoni and Chang, 2019). TNCs were established in the periphery to exploit the abundance of natural resources and cheap labour and expanded their profitability through financialisation. Global production strategies paved the way for sustained levels of financialisation (Milberg, 2008 pp. 445). Similar conclusions are found in Baud and Durand (2012) and Auvray and Rabinovich (2019). The initial global division of labour is reinforced by financialisation. First, by providing finance to their subsidiaries and at the same time relocating profits in offshore jurisdictions, making fewer funds available for national governments, acting as 'enclaves' within countries. Second, as it is more difficult for national firms to climb the technological ladder. Corporate mobility gave TNCs a competitive edge, making it more difficult for other companies to compete, particularly those with headquarters outside financial centres (De Medeiros 2017). In addition to business concentration and the ability for national companies to compete with TNCs, this regime meant fewer tax revenues available for national governments to conduct policies, influencing productive structures, for example, through less public investment in education or innovation.

[10] Examples like Embrarer in Brazil, are more an exception than the rule in the continent

In the case of national firms, economic elites in the region are not willing to promote export-led industrialisation or a catching-up period in the periphery. As we mention, in order to industrialise is necessary a strong state's strategy to implement policies and manage conflicts among economic groups and convince domestic actors to put forward this agenda, but this is not easy to achieve if the domestic elite 'captured' the state (Pama, 2019). As Palma indicates a main difference between the industrialisation process in Asia and the Import Substitution Industrialisation (ISI) process in Latin America was the incapacity to establish mechanisms in which industrialisation could be sustained when the state support ended. The support for companies was not oriented, as in the infant industries, to be temporary until firms become internationally competitive (Fajnzylber, 1990). Some industrial development was possible in the continent during the ISI, accompanied by restrictions to capital movements and stable exchange rates with devaluated currencies for exports and appreciated for imports (Vernengo, 2005). However, most of it came to an end when the state support finished, and neoliberal policies were set in place.

Nowadays, several countries possess abundant natural resources and do not export raw commodities; they stimulate processing activities. That is the case of Finland, Sweden, Denmark, Malaysia or Vietnam. In the case of Latin America, 'there is not even an attempt to get out of this trap, preferring to follow the most comfortable path of exporting raw commodities' (Palma, 2019). Therefore, the problem is related to the lack of support for industrial policies, rather than with the abundance of natural resources. The roots of this behaviour can be traced back to the origins of these republics; some of the historical reasons for creating the modern democracies were to export raw materials out of the continent where social pacts were established to maintain the links with a transnational alliance. The neoliberal waves of the 70s and 90s are a new expression of this rooted dynamic (Deniz and Marshall, 2018). A successful strategy must combine industrial and fiscal policies but also manage the capital account and monetary policies. Otherwise, periods of real exchange rate appreciation and weak or industrial policies can end in the loss of technological capabilities affecting domestic production (Cimoli et al., 2020; Medeiros, 2020).

Domestic elites do not seem to be opposing financialisation and financial liberalisation. At least, financialisation did not interfere with the interest of national commodity producers or TNCs, and it has been functional to their interests. In that way, financialisation could be seen as a 'new pact' between financial powers (domestic and international) and domestic elites related to commodity exploitation.

4.2.3 Economic cycles and terms of trade

Economic cycles are a characteristic of the capitalist system, where the periphery is subject to changes in liquidity and business cycles that are originated in the centres. Volatility is negative for long-term growth because it reduces investors' planning horizons and increases risk perceptions, discouraging productive investment and distorting macroeconomic prices. The increase in volatility is associated with the capital account and with changes in the terms of trade. Neo Structuralists have called this 'balance of payment dominance,' this is a type of regime in which external shocks (terms of trade or cycles of liquidity) dominate the macroeconomic dynamics in the short term (inflation, consumption, real wages, aggregate demand, and exchange rates). Examples of shocks related to access to external financing are the debt crisis of the 1980s, the Mexican crisis (1994), the Asian crisis (1997), the Argentinian crisis (2001) and the financial crisis (2008). Plus, movements in terms of trade, especially since the 2000s when the commodity boom in prices started, were incredibly significant. Titelman and Perez Caldentey (2015) showed that real economic fluctuations in Latin America and the Caribbean are less intense but more frequent than in other world regions. They also found a relation between the cycle and the tendency, so cycles have a lasting effect on the productive structure, despite the conjunction. In addition, the financial system brings more pro-cyclicality through the behaviour of credit, where the periods of contractions in credit are longer than those in GDP (also see ECLA 2004, 2012). In addition, there is less availability of funds in the public sector because of the decrease in tax revenues during the down-ward phases, reinforcing the decline (French-Davis, 2015). NFCs do not have enough funds to expand their productive capacity if they wanted to grow or reconvert. The long-term consequences of this greater real volatility are the meagre economic growth of the region compared to others in the world. Managing the cycles implies smoothing real and monetary variables.

During the 1990s, it was thought that controlling inflation and achieving fiscal equilibrium would be enough to obtain macroeconomic stability. This target was going to be met by imposing free exchanges rates and complete capital account openness. In consequence, foreign savings and national savings will finance large volumes of investment. With their votes of confidence, financial agents would restrain national administrations' proclivity to create fiscal and monetary imbalances. Financial markets would determine key variables like liquidity levels, interest rates, or equilibrium exchange rates. The strategy was relatively successful in terms of inflation, but as we saw, capital inflows generated appreciation of exchange rates, with negative impacts on the productive side, and on the stability of real economies.

Another essential element is the movement in the terms of trade. Erten (2011) presents the discussion of the decline in the terms of trade at a country level[11], analysing for the period 1960-2006 trade relations between North and South. Concluding that terms of trade have been detrimental for the South since the 1960s, showing that the impact was more significant for exporters of manufactures of developing countries. In addition, in the last decade, commodity prices showed significant levels of volatility and sometimes a boom-and-bust trajectory (Akyüz, 2012). These movements lead firms to hedge themselves, buying financial products like forwards on the prices of commodities. In a way, financialisation practices are a consequence of this structural trend. Besides, firms have been speculating and increasing financial gains; this could be a strategy to take advantage of good times and to save for moments of declining prices.

These structural dynamics affected the type of financialisation. It has been **selective**, focused on short-term products and some economic agents. International investors can take advantage or easily escape from cyclicality; the same is true for some national investors, who can potentially take advantage or protect from the well-known volatility. Cyclicality affects producers disparately; therefore, instability is not neutral. Motives behind financialisation in the periphery relate to the fact that Latin American economies are volatile and have low currencies in the international hierarchy. The

[11] Erten (2011) summarises the empirical literature on the declining terms of trade with a discussion of the different econometric techniques used in each one.

style is dominated by financial investors (or NFCs that act as financial investors) that are short-term oriented and are used to take advantage of sudden changes. Therefore, financialisation has been **functional** to financial investors, who are not focused on long-term decisions. Financial investors can adapt more quickly to sudden changes in relative prices or expectations than industrial capitalists. Productive capitalists need longer periods to make investment or employment decisions as they are usually difficult to revert. At the same time, industries related to commodities can cope better with economic volatility than domestically oriented industries (Cimoli et al., 2020). Financialisation in the periphery is also related to precautionary motives; NFCs use financial products to protect themselves against volatility (Demir, 2009; Rossi, 2013; Kaltenbrunner and Panceira, 2017). There is also a trend for NFCs in ECs to hold high cash and liquid assets (Kalinowski and Cho, 2009; Karwowski, 2012).

5. Final remarks

Financialisation is a global phenomenon with different implications for the centre and the periphery; it requires to be analysed jointly. The integration of peripheral countries in the world economy needs to consider the financial dimension and the productive one. Economic relations between both poles tend to reproduce the conditions of underdevelopment in the periphery and increase the distance between them. Under this scheme, we analysed how countries' structural characteristics are affected by financialisation, finding that financialisation strengthens the subordinate position in the global productive and financial system. Financialisation deepens the centre-periphery dichotomy, increases structural heterogeneity, and amplifies business and financial cycles reinforcing the place in the global financial system and currency hierarchy. In the productive dimension by i) decreasing real investment, productivity, and expenditures in R&D, ii) reducing the policy space for industrial reforms, and iii) amplifying commodity boom-bust trajectories and re-primarization strategies, and from the financial side by i) increasing instability and recurrent economic crisis and the ii) lack of resources for long-term investment.

Second, we analysed how the structural characteristic of Latin American economies matters for financialisation phenomena. Financialisation in the periphery is selective and functional. On the internal front, it has been selective, as it is focalises in some firms which are prone to financialisation; they can access financial markets to fund their activities, hedge themselves and obtain some gains from speculative activities. The rest of the economy is characterised by low levels of intermediation. It is characterised as functional as it did not alter the internal economic and political balances. It did not promote industrial and value-added activities that could potentially have conflicting interests with primary activities (regarding capital controls, exchange rate controls or actively infant industry protection). Regarding the external front, it has been selective as it is characterised by prominent financial integration levels, a short-term type of instruments that look for capital gains in the periphery and was not oriented to provide capital for improving socio-economic conditions or promoting a catching-up transition. It is functional as financialisation strengthened the position of these countries in the world order based on the original international division of labour, unaltering the characteristic of being countries specialised in commodity production and low value-added activities when comparing with central countries. That does not mean that it is impossible to catch up, as the history of some Asian countries can demonstrate, but it is necessary to conduct active policies. The style of financialisation in the periphery relates to the fact that Latin American economies are volatile due to their productive structure and capital account openness with currencies in the lower part of the monetary hierarchy.

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