



Hochschule für  
Wirtschaft und Recht Berlin  
Berlin School of Economics and Law

Institute for International Political Economy Berlin

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Authors: Ümit Akcay, Eckhard Hein, Benjamin Jungmann

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# **Financialisation and macroeconomic regimes in emerging capitalist economies before and after the Great Recession**

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Berlin School of Economics and Law, Institute for International Political Economy (IPE)

## **Abstract**

In recent years, diverging demand and growth regimes have received greater scholarly attention. In particular, the intersection between different variants of Comparative Political Economy and the post-Keynesian macroeconomic analysis provides a promising avenue for understanding the main dynamics of various growth regimes. Yet, the majority of these studies has focused on the global North. In this contribution, we expand this analysis to the global South by examining eight large emerging capitalist economies (ECEs) – Argentina, Brazil, China, India, Mexico, Russia, South Africa, and Turkey – during the periods 2000-2008 and 2009-2019. In so doing, we not only uncover the main demand and growth regimes of ECEs for the two periods, but also link these results to the main trends in the demand and growth regimes of developed capitalist economies (DCEs) for both periods. One of the main findings of our research is that ECEs did not follow the same path as DCEs after the Great Recession. While there was a clear shift in the demand and growth regimes of DCEs towards an export orientation, the main pattern in the ECEs remained the continuation of a trend that had already emerged before the 2007-09 crisis, i.e. domestic demand-led models. Finally, we provide some observations on the puzzle of resilient domestic demand-led models in ECEs.

**Key words:** demand and growth regime, financialisation, emerging capitalist countries, post-Keynesian economics, Argentina, Brazil, China, India, Mexico, Russia, South Africa, Turkey

**JEL code:** E11, E12, E65, F65

## **Corresponding author**

Dr. Ümit Akcay

Berlin School of Economics and Law

Badensche Str. 52

10825 Berlin

Germany

e-mail: [Uemit.Akcay@hwr-berlin.de](mailto:Uemit.Akcay@hwr-berlin.de)

## 1. Introduction

In the last decade, diverging economic growth patterns and their main properties in both developed capitalist economies (DCEs) and emerging capitalist economies (ECEs) have received more scholarly attention, particularly after the 2007-09 Global Financial Crisis and Great Recession. The interaction between capital accumulation dynamics and their links to institutional structures can hardly be regarded as a fresh theme in Comparative Political Economy (CPE). Indeed, the French regulation school's *accumulation regime* and *mode of regulation* were designed to understand the roots of stability – at least for a certain period, namely from 1945 to the 1970s – in a capitalist system that was ontologically unstable (Aglietta, 2015, [1979]). Along with this Marxist variant, more mainstream research agendas, such as corporatism, are also available in the CPE literature (Schwartz and Tranøy, 2019). Yet, renewed interest in classical political economic themes such as the main drivers of capital accumulation, the various growth strategies that are shaped by inter-class and intra-class struggles, the role of the state in various growth regimes, and international economic and financial imbalances, have begun to cluster in CPE around the notion of demand-led growth regimes originating from post-Keynesian macroeconomics (Baccaro and Pontusson, 2016).<sup>1</sup>

As for DCEs, the recent debate on capitalist diversity developed in response to the *Varieties of Capitalism* (VoC) approach, which investigates the supply-side dynamics and micro-drivers of economic growth and their accompanying institutional complementarities. The VoC approach compares the US and German economic models and identifies the former as a Liberal and the latter as a Coordinated Market Economy (LME and CME), in which various corporate governance strategies and different wage coordination structures play a central role (Hall and Soskice, 2001). Bearing the stamp of the Great Moderation perspective, where economic and financial instabilities are for the most part excluded from the analysis, the VoC approach depends on neo-institutionalism and mainstream New Consensus macroeconomics as its two major building blocks (Stockhammer, 2020). Yet, these stability-based foundations of the CPE and Comparative Capitalism (CC) literatures were challenged by the Global Financial Crisis in 2008. In the post-crisis period, scholars engaged in more critical approaches, such as the Critical Comparative Capitalism (CCC) perspective (Bohle and Greskovits, 2009; Bohle, 2018; Jessop, 2014a, 2014b; Bruff et al., 2015; Amable, 2016), and in the literature on international political economy (IPE) researchers have begun to participate in the discussion on capitalist diversity (Bieling, 2014; Blyth and Matthijs, 2017).<sup>2</sup> Finally, the involvement of post-Keynesian scholars has also reshaped the research agenda, by systematically elaborating the links between financialisation and various demand and growth regimes.<sup>3</sup>

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<sup>1</sup> For an appreciation but also an analysis of some of the shortcomings of Baccaro and Pontusson's (2016) paper, see Hein et al. (2020).

<sup>2</sup> For a comprehensive literature review of the VoC, the post-VoC, and the CCC approaches, as well as the three waves of CPE analysis, see Nölke (2016).

<sup>3</sup> We will review the post-Keynesian literature on the demand and growth regimes in detail in the following section.

Similar to DCEs, the crises of the 1970s were a turning point for the growth models of ECEs.<sup>4</sup> During the 1980s and 1990s, the main debate within the political economy of development was dominated by the developmental state framework and the state versus market dichotomy (Chibber, 2003). This period also saw the rise of structural adjustment programmes, aimed at changing the growth trajectories of countries in the global South and implemented under the auspices of the International Monetary Fund and the World Bank with rigid conditionalities. The ensuing shift towards an export-led industrialisation (ELI) strategy accompanied by privatizations, financial liberalisations, the establishment of new institutional structures, based on post-Washington Consensus principles, centred on central bank independence and inflation targeting regimes, has dominated the discussion on the growth regimes of ECEs (Fine et al., 2001).

Although the post-Washington Consensus has long been the major policy framework for the global South, still there are divergent paths within ECEs. The CPE literature has been one of the research programmes that aims to understand the main dynamics driving the divergent paths of ECEs through the introduction of new typologies. While the concept of “dependent market economies” focuses on the political economy of Eastern European growth regimes (Nölke and Vliegthart, 2009), the concept of “hierarchic market economies” was developed to explain the Latin American experience (Schneider, 2013). More recently, two further streams of research have emerged in the literature on CPE:<sup>5</sup> The former is focused more on the taxonomy debate and attempts to generate a new classification of global South countries (Fainshmidt et al., 2016), while the latter is concerned with the increasing role of the state in ECEs (Nölke, 2014) from various political economy perspectives, including “patrimonial market economies” (Schlumberger, 2008), “incorporated capitalism” as in bureaucratic and patrimonial market economies (Buhr and Frankenberger, 2014), “state-permeated capitalism” (Nölke, 2018), “sino-capitalism” (McNally, 2019), and “state capitalism” (Alami and Dixon, 2020). Since these recent attempts have mostly focused on the role of the state however, they generally do not aim to link these endeavours with the literature on demand and growth regimes. As such, we believe that bridging this gap between the CPE scholarship on institutional varieties of DCEs and ECEs and post-Keynesian research on demand and growth regimes will lead to new insights in both fields.

The current paper aims to make three contributions: First, on a descriptive level, we define and cluster pre- and post-crisis demand and growth regimes in DCEs and eight large ECEs –

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<sup>4</sup> Scholarly debates on the growth regimes for ECEs go back all the way to the formation of the discipline of development economics in the post-Second World War period, when the growth regime discussion inevitably turned into a discussion about the political economy of development and industrialisation strategies. In the post-Second World War period, newly established social blocs, consisting of local industrialists, state managers and multinational companies, in most of the global South began the implementation of indicative planning (Lewis, 1966) as part of an import-substituting industrialisation (ISI) strategy (Hirschmann, 1968). The Economic Commission for Latin America’s structuralist approach, as well as dependency school scholars, criticized the modernisation school’s optimistic promises about DCE’s catching up and provided a more realistic account of dependent development in the industrialisation trajectories of ECEs (Kvangraven, 2020).

<sup>5</sup> For a detailed review, see Schedelik et al. (2020).

Argentina, Brazil, China, India, Mexico, Russia, South Africa, and Turkey – during the periods 2000-2008 and 2009-2019, which are hence split by the Global Financial Crisis and the Great Recession. Second, on a theoretical level, we connect the financialisation literature to the demand and growth regimes literature for both DCEs and ECEs. Third, on an analytical level, we provide a fuller perspective on global imbalances and the interplay between different demand and growth regimes globally. In providing a descriptive analysis of demand and growth regimes of ECEs and a number of rather broad observations on the causal links of the regime changes, we have purposefully limited the scope of the current paper, as we designed this study as both a background paper and the first step of a broader research agenda.

The rest of the paper is structured as follows: The next section summarises our view on the effects of financialisation on macroeconomic demand and growth regimes in DCEs before and after the 2007-09 crisis. Section 3 expands our framework by introducing an overview on the main characteristics of the financialisation experiences of ECEs and the major income distribution trends in these countries. Section 4 provides an overall assessment of the demand and growth regimes in eight ECEs, and seeks to uncover the changes in the overall patterns in these countries before and after the 2007-09 crisis. It also brings together the analyses of both DCEs and ECEs to assess the interplay between various demand and growth regimes globally. Finally, Section 5 concludes with a summary of our main findings.

## **2. Demand and growth regimes in finance-dominated capitalism – and the shift of regimes in developed capitalist economies after the 2007-09 crisis**

In post-Keynesian macroeconomic analysis, mainly focussed on DCEs, it has been argued that different macroeconomic demand and growth regimes have emerged under the conditions of financialisation since the early 1980s (Hein, 2012). Since then, the capitalist economies have experienced major changes in the financial sector and its relationship with the overall economy, including the liberalisation of financial markets, the development of new financial instruments and an overall increasing role of finance in the operation of the economies (Epstein, 2005). These changes have affected macroeconomic performance through the following channels: (1) income distribution, (2) investment in capital stock, (3) consumption and (4) the current account balances.<sup>6</sup>

From a macroeconomic perspective, with respect to income distribution, financialisation has been associated with falling wage shares, rising top income shares and rising inequality of

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<sup>6</sup> See, for example, Hein (2012), Hein (2019), Hein and Mundt (2012), Stockhammer (2010, 2012, 2015), van Treeck and Storn (2012), the contributions in Hein et al. (2015, 2016), and several others. These macroeconomic features of financialisation have been derived from the broad and extensive literature on changes in the structure, institutions and power relationships in modern capitalism since the early 1980s. Some overviews can be found in Guttman (2016), Palley (2013), Sawyer (2013/14) and van der Zwan (2014).

household incomes in general.<sup>7</sup> Furthermore, financialisation has caused lower investment in the real capital stock, because shareholder power vis-à-vis firms and workers increased, shifting managers' objectives from long-run growth of the firm to boosting short-term profitability through financial activities, on the one hand, and raising share prices through dividend payments and share buybacks.<sup>8</sup> These two features of finance-dominated capitalism have each partially negatively affected aggregate demand and growth, directly by decreasing investment in the capital stock, and indirectly by re-distributing income to groups with lower propensities to consume in mostly wage-led economies.<sup>9</sup> Against this background two extreme regimes have developed. In some countries, the shortfall in investment and income-financed consumption has been compensated by wealth-based and debt-financed consumption, which has been facilitated by the deregulation of the financial sector.<sup>10</sup> Other countries facing rising income inequality and dampened real investment have been relying on net exports to generate growth.<sup>11</sup> These two opposed demand and growth regimes have generated complementary external account positions of the two country groups. The current account deficits of the debt-financed model have been matched by the current account surpluses of the export-driven growth model. Financialisation contributed to these developments, because the deregulation and liberalisation of international capital markets and capital accounts has allowed current account imbalances to persist and deficits to be financed over longer periods.<sup>12</sup>

The empirical examination and clustering of macroeconomic regimes under financialisation, also applied in the current paper, can follow a procedure initially introduced by Hein (2011a, 2011b), and then used in several studies with slightly differing labelling of regimes for the period before the Global Financial Crisis and the Great Recession (2007-9).<sup>13</sup> Among these studies, the one by Hein and Mundt (2012, 2013) on the G20 countries has already covered the eight ECEs of the current paper for the period of the early 2000s until 2008.

In these studies, the following regimes have been distinguished: (1) a debt-led private demand (boom) regime, (2) an export-led mercantilist regime, (3) a weakly export-led regime and (4) a domestic demand-led regime. Empirically, these demand and growth regimes have been assessed by considering first the financial balances of the main macroeconomic sectors: the private sector, with the private household sector, the financial and non-financial corporate sectors as sub-sectors; the government sector; and the external sector. The sectoral financial

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<sup>7</sup> See Hein (2015) and Köhler et al. (2019) for overviews on the empirical evidence of the effects of financialisation and income distribution.

<sup>8</sup> See Davis (2017) for a recent review of empirical evidence on the effects of financialisation on investment in the capital stock.

<sup>9</sup> Econometric research based on demand-driven post-Kaleckian distribution and growth models has shown that most of the DCEs, tend to be wage-led, that is a falling wage share will dampen aggregate demand and growth (Hein, 2014, chapter 7; Hartwig, 2014; Onaran and Galanis, 2014).

<sup>10</sup> See, for example, the empirical studies on financialisation, inequality, household debt and consumption by Cynamon and Fazzari (2008, 2013), Kim (2013), Stockhammer and Wildauer (2016) and van Treeck (2014).

<sup>11</sup> For a derivation of these regimes in simulated stock-flow consistent models see Belabed et al. (2018) and Detzer (2018), and for a stylized Kaleckian model see Hein (2018).

<sup>12</sup> See, for example, the analysis in Hein (2012, chapter 6) and Stockhammer (2015)

<sup>13</sup> See also Hein (2012, chapters 6 and 8, 2013, 2013/14) and Hein et al. (2012).

balances of a country should sum up to zero, apart from statistical discrepancies, because a positive financial balance of one sector needs a respective negative financial balance of another sector – a creditor needs a debtor and vice versa. Second, the growth contributions of the main demand aggregates have been examined. These are the growth contributions of private consumption, public consumption, as well as private and public investment, which sum up to the growth contribution of domestic demand, and finally the growth contribution of the balance of goods and services, i.e. of net exports. The growth contributions of the demand aggregates should sum up to real GDP growth of the respective country. Looking at these two sets of indicators provides some information about the main drivers of demand and growth, on the one hand, and on how demand is financed and the related deficit dynamics, on the other hand.

The *debt-led private demand (boom) regime* is characterised by deficits of the private domestic sectors as a whole, which are, on the one hand, driven by corporate deficits and, on the other hand, by negative or close to zero financial balances of the private household sector. The latter implies that major parts of the private household sector have negative saving rates out of current income and finance these deficits by increasing their stock of debt or by decreasing their stock of assets. The deficits of the private domestic sectors are usually mirrored by positive financial balances of the external sector, i.e. by current account deficits of the domestic economy. Growth is mainly driven by private domestic demand, and private consumption demand in particular, to a large degree financed by credit, while the balance of goods and services negatively contributes to growth.

The *export-led mercantilist regime* shows positive financial balances of the private domestic sectors as a whole that are mainly matched by negative financial balances of the external sector, indicating current account surpluses of the domestic economy. There are high growth contributions of the positive balance of goods and services, and thus, rising net exports and current account surpluses, and small or even negative growth contributions of domestic demand.

The *weakly export-led regime* either shows positive financial balances of the domestic sectors, negative financial balances of the external sector, and hence current account surpluses, but negative growth contributions of the balance of goods and services and thus falling net exports and current account surpluses. Alternatively, we may have negative financial balances of the domestic sectors, positive financial balances of the external sector, and hence current account deficits, but positive growth contributions of the balance of goods and services, and thus improving net exports and falling current account deficits.

The *domestic demand-led regime* is characterised by positive financial balances of the private household sector, while the government and, to some extent, the corporate sector are running deficits. The external sector is usually roughly balanced, seeing only small deficits or surpluses. Domestic demand contributes positively to growth (without being driven by credit-

financed private consumption) and there are slightly negative or positive growth contributions of the balance of goods and services.

In the pre-2007-09 crisis period, in the ‘debt-led private demand boom’ regime, debt-financed private consumption and partially debt-financed real estate investment have been the main drivers of growth, leading to rising, and then unsustainable, household debt dynamics, as well as to rising current account deficits, and thus unsustainable foreign debt dynamics in some countries. In the counterpart ‘export-led mercantilist’ countries, rising net exports and current account surpluses have partly compensated for weak domestic demand caused by the features of financialisation, and have become the main drivers of demand and growth. These developments have been associated with rising current account imbalances at the global scale (Figure 1) and unsustainable foreign debt dynamics in some counterpart current account deficit countries, which have followed the ‘debt-led private demand boom’ regime.

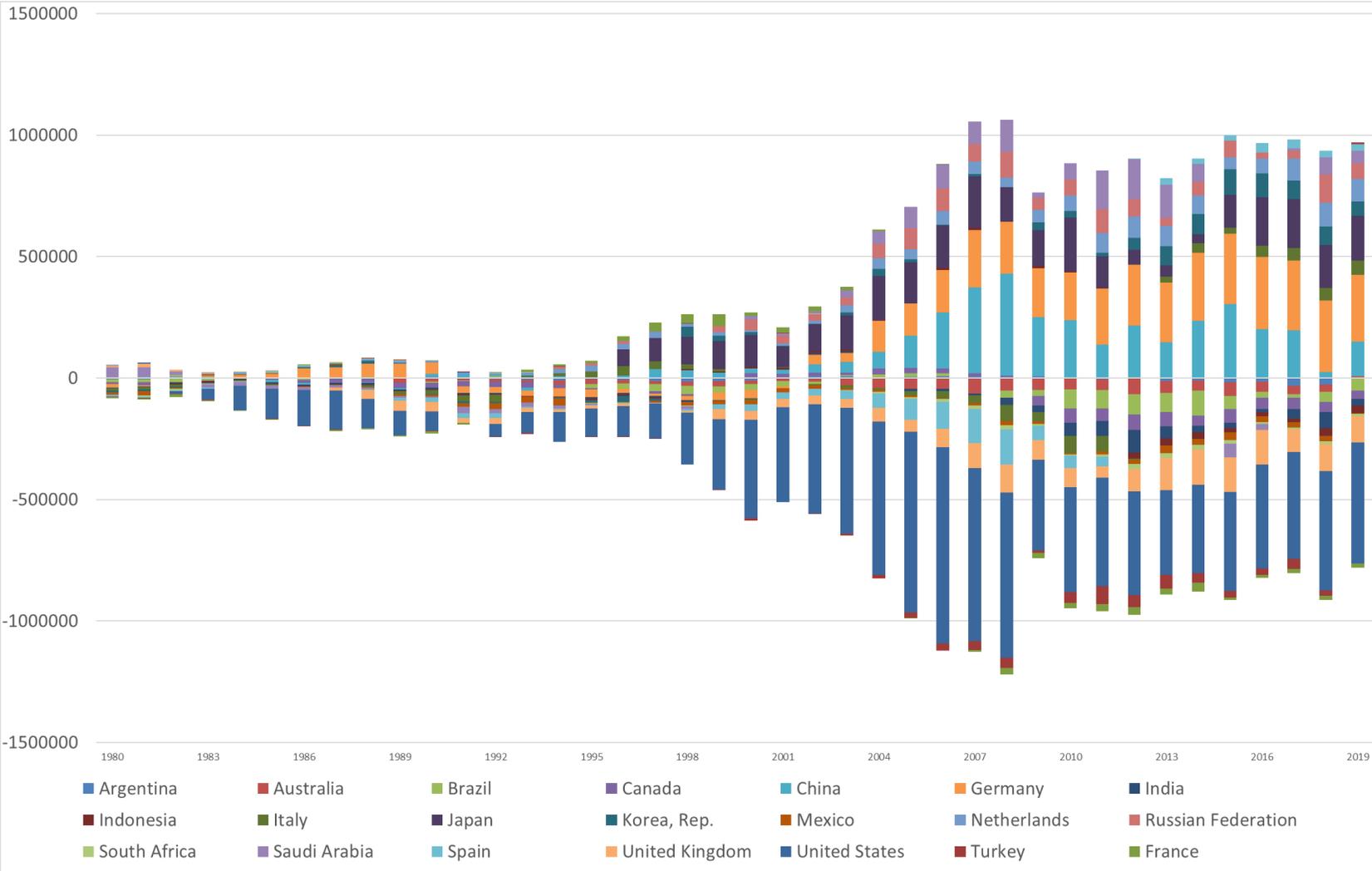
As is well known, these unsustainable debt dynamics then lead to the Global Financial Crisis and the Great Recession (2007-09), which was triggered by the subprime mortgage crisis in the US and was then spreading over the globe via the financial contagion channel in globally integrated financial markets and via the international trade channel in globally integrated goods markets. Some recent studies have examined the shift of regimes from the period before the Global Financial Crisis and the Great Recession (2007-9) to the period after these crises (Table 1):<sup>14</sup> Dodig et al. (2016) for 15 OECD countries, Hein (2019) for six OECD countries and the initial Eurozone (EA-12), Dühaupt and Hein (2019) for three Baltic Sea countries, Hein et al (2020) for 30 OECD countries, and Hein and Martschin (2020) for 11 initial Eurozone countries and the EA-12 as a whole.

For the DCEs considered in these studies the following pattern has been found (Table 1): Export-led mercantilist countries before the 2007-09 crisis have mainly maintained this regime or have turned weakly export-led after. The only exception is Finland, which turned domestic demand-led. Weakly export-led regimes before the crisis kept this regime or even became export-led mercantilist, Canada being the exception which moved towards domestic demand-led, stabilised by government deficits. Domestic demand-led regimes before the crisis moved towards weakly export-led or even export-led mercantilist regimes after the crisis. The only exceptions are France, which remained domestic demand-led, and Turkey, which has shown some indication of a debt-led private demand boom regime after the crisis. Since Turkey is among the countries in the current study, we will examine this case more closely further below. Finally, debt-led private demand boom countries before the crisis either shifted to weakly export-led or even export-led mercantilist regimes after the crisis, or they turned towards domestic demand-led regimes stabilised by high government deficits.

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<sup>14</sup> Different allocations of countries to regimes across the studies are due to different time periods and slightly changing specifications of criteria.

Figure 1: Current account balance in current US\$, 21 main countries, 1980-2019



Source: IMF (2020), our presentation.

**Table 1: Shift of demand and growth regimes according to five studies on developed capitalist economies (DCEs)**

		Post 2007-09 crisis			
		Debt-led private demand (boom) (DLPD)	Domestic demand-led with high public sector deficits (DDL (PD))	Weakly export-led (WEL)	Export-led mercantilist (ELM)
Pre-2007-09 crisis	Debt-led private demand (boom) (DLPD)		New Zealand (Hea) UK (Dea, H, Hea) USA (Dea, H, Hea) South Africa (Dea)	Australia (Hea) Greece (Dea, Hea, H/M) Portugal (Hea) Slovakia (Hea) Spain (Hea)	Estonia (Dea, D/H, Hea) Hungary (Hea) Ireland (Hea, H/M) Hungary (Dea) Latvia (D/H) Spain (H, H/M)
	Domestic demand led (DDL)	Turkey (Dea)	France (Dea, H, Hea, H/M)	Italy (Dea, Hea) Poland (Dea, Hea) Portugal (Dea, H/M)	EA-12 (H, H/M) Italy (H/M)
	Weakly export-led (WEL)		Canada (Hea)	Czech Rep. (Hea) Iceland (Hea) Norway (Hea)	Denmark (D/H, Hea) Slovenia (Hea)
	Export-led mercantilist (ELM)		Finland (Hea, H/M)	Austria (Hea) Belgium (H/M) Japan (Dea, Hea) Sweden (Dea, H, Hea)	Austria (H/M) Belgium (Hea) Germany (Dea, H, Hea, H/M) Korea (Hea) Luxembourg (Hea) Netherlands (Hea, H/M) Switzerland (Hea)
Notes: Dea: Dodig et al. (2016), 2001-08, 2008-14; H: Hein (2019), 1999-2007, 2008-16; D/H: Dünhaupt and Hein (2019), 1995-2008, 2009-16; Hea: Hein et al. (2020), 2000-08, 2009-16; H/M: Hein and Martschin (2020), 2001-09, 2010-19.					
Sources: Dodig et al. (2016), Hein (2019), Dünhaupt and Hein (2019), Hein et al. (2020), Hein and Martschin (2020), our presentation.					

As argued by Hein (2019), Hein et al. (2020) and Hein and Martschin (2020), the type of shift of the previously debt-led private demand boom economies has depended, on the one hand, on the requirement of private sector deleveraging after the financial crisis, and, on the other hand, on the ability and willingness to run deficit financed and stabilising fiscal policies.<sup>15</sup> The institutional constraints imposed on national fiscal policies in the Eurozone, the absence of relevant fiscal policies at the Eurozone level, and the turn towards austerity policies when the Eurozone crisis started in 2010, explain to a large extent, why in particular European debt-led private demand boom countries turned weakly export-led or export-led mercantilist after the Global Financial Crisis and the Great Recession. The collapse of domestic demand caused by the requirements for the private sectors to deleverage was reinforced by austerity policies of the public sector, which made imports collapse, net exports rise and the current account in these countries improve and in several cases even turn positive. Those debt-led private demand boom countries before the crisis, which were able to make use of expansionary deficit financed fiscal policies, in particular the UK and the US, however, compensated private deleveraging by rising public deficits thus stabilising aggregate demand in their countries, and through the import channel also of the global economy.

This polarisation of post-crisis regimes in OECD countries, with export-led mercantilist or weakly export-led regimes, on the one hand, and domestic demand-led regimes stabilised by government deficits, on the other hand, has been associated with weak capital accumulation and growth, i.e. with stagnative tendencies, which has led to the re-emergence of the debate about secular stagnation and stagnation policy (Summers 2014, 2015; Cynamon and Fazzari 2015, 2016; Hein 2016, 2019, 2020). But this polarisation of regimes has also contributed to preserving the global current account imbalances (Figure 1), with the counterpart to the current account surplus export-led mercantilist countries, now provided by the domestic demand-led economies, stabilised by government deficits, running current account deficits. However, only looking at DCEs does not provide a full picture with respect to pre- and post-crisis regimes and the related global challenges. Therefore, in the next sections we will turn to eight large ECEs.

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<sup>15</sup> For a more detailed analysis of the drivers of the shift of regimes, introducing different labels for the post-crisis regimes, see Köhler and Stockhammer (2021). They examine in particular the requirements of deleveraging in the context of a financial boom bust cycle, the role of fiscal policies and the relevance of price and non-price competitiveness for exports in order to explain the emergence of the different post-crisis regimes. Hein et al. (2020) have focussed on the role of welfare state policies, labour market institutions and income distribution, too, in order to grasp the shift of regimes. However, here is not the place for further developing these interesting lines of research.

### 3. Financialisation in the global South: indicators and distribution trends in eight emerging capitalist economies

The financialisation experiences of ECEs are characterised by their “peripheral condition” in the world economy (Andrade and Prates, 2013) and their asymmetrical integration into financial globalisation, resulting in a multiform manifestation of financialisation across the global South – as the concept of “variegated financialisation” suggests (Karwowski et al., 2020). Although the financialisation experiences of the ECEs have not strictly followed the same route as those of the DCEs, the growing literature on the financialisation of ECEs suggests that the integration of ECEs into financial globalisation has mostly been marked by their external dependency (Becker et al., 2010; Rodrigues et al., 2016). This specific characteristic is typically analysed via the concepts of “subordinate financialisation” (Lapavitsas, 2013; Powell, 2013; Bortz and Kaltenbrunner, 2018), and “dependent financialisation” (Becker and Weissenbacher, 2015; Becker, 2016; Gabor, 2013; Akcay and Güngen, 2019; Akcay, 2021).

Before examining the main indicators of financialisation, we would like to present some overall observations about the dependent financialisation experiences of ECEs during the last two decades. Similar to the main trends in DCEs, financialisation has also caused lower investment in the real capital stock in ECEs, as the NFCs’ investment decisions have shifted from long-term fixed investment projects to short-term financial investments (Demir, 2009). This trend has become even more explicit in the post-2007-09 crisis period, as the growth contribution of investment declined in all eight ECEs (see Table 5). Another significant aspect of dependent financialisation has been ECEs’ reliance on capital inflows for economic growth.<sup>16</sup> Dependency on capital inflows (Guimarães Coelho and Perez Caldentey, 2018) coupled with the hierarchical nature of the global monetary and financial system (Fritz et al., 2018) caused the structural financial instability of ECEs. Post-Keynesians, in particular, stress this point based on a modified version of Keynes’s liquidity preference theory. The chief feature of the “peripheral condition” for dependent financialisation is that the currencies of ECEs have “a lower liquidity premium in relation to the key currency and other convertible currencies” (Andrade and Prates, 2013: 413). The hierarchical structure of the international monetary and finance system thus forces ECEs, particularly the ones in lower position in the hierarchy, to offer higher interest rates than DCEs to attract foreign capital inflows (Kaltenbrunner, 2018; Bortz and Kaltenbrunner, 2018). Furthermore, the lower convertibility of the currencies of peripheral countries creates an incentive structure for economic actors to demand hard currency before undertaking national or international operations. This has been the key driver of dollarisation/euroisation in ECEs (Becker et al., 2010: 230). Finally, structurally higher interest rates in ECEs than in DCEs are a further detriment to investment.

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<sup>16</sup> The role of capital movements can be defined as the common denominator for various forms of dependent financialisation. They have been studied extensively since the Asian Crisis in the late 1990s. For instance, Arestis and Glickman (2002: 258) introduced a Minskyan approach to explain the Asian Crisis by arguing that “financial liberalization has acted as the key euphoria-inducing factor”, which rapidly shifted financing conditions from speculative to super-speculative. Kaltenbrunner and Paineira (2015) improved this Minskyan approach by including the more recent experiences of ECEs.

These structural obstacles in ECEs have been exacerbated by the rise in financial integration in the last two decades, in which global financial cycles play an increasingly more important role.<sup>17</sup> The global financial cycles approach underlines the importance of monetary policy decisions made by actors at the top of the global currency hierarchy, i.e. the US central bank, the Federal Reserve (Bräuning and Ivashina, 2019). Global financial cycles are not only “related to monetary conditions in the center country” but also “to changes in risk aversion and uncertainty” (Rey, 2015: 286). The expansion-contraction cycles are particularly crucial for the financialisation experiences of ECEs due to the spillover effects of Fed decisions (Miranda-Agrippino and Rey, 2020).

During the expansion phase of the global financial cycle, DCEs, primarily the United States, operate a low interest-rate regime. This creates an incentive structure for investors in DCEs to “search for profitable venues” (Bonizzi, 2017: 30). It also allows ECE policymakers to lower their interest rates, which is a key factor in domestic financialisation, whereby workers and low-income groups are absorbed into the financial system (Becker et al., 2010: 231). As Karwowski (2019: 1017) emphasised, “low interest rates in the US have fuelled financialisation” in both DCEs and ECEs. In short, mass financialisation in ECEs, in contrast to elite financialisation, requires low interest rates in DCEs, making it a contingent phenomenon rather than a structural component of dependent financialisation. Under the condition of liberalised international capital markets, expansions also create an incentive structure for investors to take more risks while interest rates are low, fuelling capital inflows to ECEs, which, in turn, encourage domestic banks to lend more to households and non-financial corporations (NFCs). Simply put, the expansion phase of the global financial cycle allows dependent financialisation to deepen. This, however, creates new contradictions for ECEs: Specifically, overvalued exchange rates result in “premature deindustrialization” (Rodrik, 2015), growing current account deficits, and the rising foreign exchange-denominated debt of NFCs (see Table 2).

During the contraction phase, on the other hand, the transmission mechanism reverses: The Fed’s rising interest rates or forward guidance interventions and increased risk aversion trigger capital outflows from ECEs – or even *sudden stops* in extreme cases. This translates into rising inflation, higher domestic interest rates, and credit crunches in ECEs (Akçay and Güngen, 2019), and consequently the narrowing of the policy space available for ECE decision-makers. Dependent financialisation thus “locks DEC [developing and emerging countries] into the dynamics of global financial cycles, limiting significantly their ability to influence domestic financial conditions” (Gabor, 2018: 12). Rey’s (2015) analysis highlights a similar point. According to her, global financial cycles transformed the conventional Mundell–Fleming “trilemma” of open market economies into a “dilemma”. Indeed, “independent monetary policies are possible if and only if the capital account is managed, directly or indirectly, regardless of the exchange-rate regime” (Rey, 2015: 287). Taken together, these recent trends not only deepened

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<sup>17</sup> For the “new forms of international vulnerability” of ECEs as a result of further financial integration, see the examples of the Brazilian (Kaltenbrunner and Paineira, 2015) and South African (Isaacs and Kaltenbrunner, 2018) cases.

ECEs' financialisation, but also made ECEs more crisis-prone because of their growing external dependency.

We use six main indicators to describe the pre- and post-2007-09 crisis financialisation experiences of the ECEs, as summarised in Table 2.<sup>18</sup> Increasing household indebtedness is a relatively recent phenomenon in ECEs, making household debt in ECEs, on average, lower than in DCEs. In the first period, between 2000 and 2008, credit to households as a percentage of GDP was equal or below to 10% in the majority of our ECEs, except for Brazil and China. In the second period, between 2009 and 2019, this ratio increased to a varying degree, except for India. For the post-2007-09 crisis period, household indebtedness more than doubled in China, Russia and Turkey.

Since the mortgage sector is not as developed in the ECEs as in the DCEs, the link between residential property prices and credit to households as a percentage of GDP is relatively weak. For the post-2007-09 crisis period, the annual growth rate of residential property prices was lower than during pre-2007-09 crisis period, although household debt increased substantially during the post-2007-09 crisis period. The relatively weak mortgage sector can be attributed to the structurally higher interest rates that ECEs are forced to offer.

Along with household debt, the increasing indebtedness of non-financial corporations (NFCs) can be seen as another form of financialisation. As a general trend, NFCs' indebtedness increased between the first and the second period, except for Argentina. Although China has the highest rate of NFC indebtedness, Turkey has the fastest growing rate between two periods, where credit to NFCs as a percentage of GDP more than doubled.

As for the market capitalisation rate, there is a general pattern of increases from the first to the second period, except for Argentina and Brazil, although the capitalisation rate varies among our eight ECEs. While South Africa has the highest capitalisation rate with 263% of GDP, Argentina has the lowest in the post-2007-09 crisis period.

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<sup>18</sup> Different indicators can be used to grasp the financialisation experiences of ECEs. Here, we mostly follow Karwowski's (2020) selection. In Table 2, we already include the type of regime as analysed in the following section.

**Table 2: Key financialisation indicators (average values for the respective period)**

	Argentina		Brazil		China		India	
Years	2000-2008	2009-2019	2000-2008	2009-2019	2000-2008	2009-2019	2000-2008	2009-2019
<b>Credit to NFCs as a percentage of GDP</b>	29.64	13.53	34.66	41.18	98.78	138.84	43.49	48.70
<b>Credit to households as a percentage of GDP</b>	4.24	5.71	13.51	25.94	16.10	36.65	10.65	9.85
<b>Annual growth rate of residential property prices in per cent</b>	NA	NA	12.02	8.91	NA	8.44	NA	12.30
<b>Market capitalisation as percentage of GDP</b>	19.38	10.88	53.34	47.12	46.31	58.01	71.51	76.15
<b>Annual growth rate of the REER (%)</b>	-6.97	-5.64	3.92	-0.95	0.52	2.24	0.91	0.67
<b>Regime</b>	<b>ELM</b>	<b>DDL (PD)</b>	<b>WEL</b>	<b>DDL (PD)</b>	<b>ELM</b>	<b>WEL</b>	<b>DDL (PD)</b>	<b>DDL (PD)</b>

Notes: NFC: non-financial corporations, REER: real effective exchange rate, ELM: Export-led mercantilist, WEL: Weakly-export led, DDL: Domestic demand-led , DDL (PD): Domestic demand-led with high public sector deficits, DLPD: Debt-led private demand  
Sources: BIS (2020a), BIS (2020b), Federal Reserve Economic Data (2020), World Bank (2020), BIS (2020c), our calculations and presentation.

<b>Table 2: Key financialisation indicators (average values for the respective period) continued</b>								
	<b>Mexico</b>		<b>Russia</b>		<b>South Africa</b>		<b>Turkey</b>	
<b>Years</b>	<b>2000-2008</b>	<b>2009-2019</b>	<b>2000-2008</b>	<b>2009-2019</b>	<b>2000-2008</b>	<b>2009-2019</b>	<b>2000-2008</b>	<b>2009-2019</b>
<b>Credit to NFCs as a percentage of GDP</b>	15.08	21.30	34.27	69.12	NA	34.30	24.33	54.42
<b>Credit to households as a percentage of GDP</b>	10.15	14.80	4.42	14.46	NA	37.34	5.71	16.77
<b>Annual growth rate of residential property prices in per cent</b>	10.24	8.93	31.88	0.82	17.90	4.41	NA	10.33
<b>Market capitalisation as percentage of GDP</b>	23.15	36.87	NA	40.43	187.88	263.50	25.50	26.48
<b>Annual growth rate of the REER (%)</b>	0.03	-1.82	8.59	-1.10	-1.10	0.15	3.66	-3.79
<b>Regime</b>	<b>DDL</b>	<b>WEL</b>	<b>WEL</b>	<b>ELM</b>	<b>DLPD</b>	<b>DLPD</b>	<b>DDL (PD)</b>	<b>DLPD</b>
Notes: NFC: non-financial corporations, REER: real effective exchange rate, ELM: Export-led mercantilist, WEL: Weakly-export led, DDL: Domestic demand-led , DDL (PD): Domestic demand-led with high public sector deficits, DLPD: Debt-led private demand. Sources: BIS (2020a), BIS (2020b), Federal Reserve Economic Data (2020), World Bank (2020), BIS (2020c), our calculations and presentation.								

Before the 2007-09 crisis, with the exception of Argentina, Brazil and Russia, the other countries in our data set show the expected pattern of distributional trends mentioned in Section 2 (Table 3). Wage shares were falling and profit shares thus rising. Top income shares, here top 1-percent and top 10-percent, were rising in all our countries before the crises, except for Turkey where a slight fall can be observed. For Mexico we do not have data on this. In most of the countries in which wage shares were falling and top income shares were rising, also Gini coefficients for the distribution of disposable income were increasing, except for Turkey and Mexico. With a few exceptions, the eight ECEs thus show a similar pattern regarding distribution, which has also been found for major DCEs before the crisis, i.e. falling wage shares, rising top income shares and rising Gini coefficients for personal/household distribution of income (Hein et al. 2017a, 2017b, 2018).

<b>Table 3: Distribution trends</b>				
		<b>Wage share</b>	<b>Top income share (Top 1-percent and top 10-per- cent)</b>	<b>Gini coefficient for disposable in- come</b>
<b>Argentina</b>	2004-2008	+	+	-
	2009-2017	+	NA	-
<b>Brazil</b>	2004-2008	+	+	-
	2009-2017	+	0	0
<b>China</b>	2004-2008	-	+	+
	2009-2017	+	-	-
<b>India</b>	2004-2008	-	+	+
	2009-2017	-	+	+
<b>Mexico</b>	2000-2008	-	NA	-
	2009-2018	-	NA	-
<b>Russia</b>	2004-2008	+	+	0
	2009-2017	0	-	-
<b>South Africa</b>	2004-2008	-	+	0
	2009-2017	+	+	0
<b>Turkey</b>	2000-2008	-	-	-
	2009-2019	+	+	0

Notes: Distribution indicators refer to the changes within the period, "+" indicates an increase, "-" a decrease, "0" no change. Wage shares are adjusted and provided in nominal terms.  
Sources: ILO (2020), European Commission (2020), World Inequality Database (2020) and Solt (2020), our calculations and presentation

For the post-2007-09 crisis period, the pattern of distributional trends becomes more diverse, as has also been observed for DCEs (Hein et al. 2017a, 2017b, 2018). In Brazil, Argentina, but now also in China, South Africa and Turkey we observe a trend of the wage share to rise, whereas India and Mexico have faced further falling wage shares. Top income shares have stopped rising in Brazil, China and Russia, but have continued to increase in India and South

Africa, and started to do so in Turkey. In the post-crisis period, the Gini coefficient for disposable income continued to increase only in India, whereas the other countries have either seen a constant or falling Gini.

#### **4. Demand and growth regimes, pre and post the 2007-09 crisis, in eight large emerging capitalist economies**

The examination and clustering of demand and growth regimes of our eight ECEs follows the procedure outlined in Section 2. We are examining the growth contributions of domestic demand, composed of the contributions of private consumption, public consumption and investment, as well as the growth contribution of net exports. Furthermore, we are looking at the financial balances of the external, public and private sectors of our economies, and for the latter we are distinguishing the household and the corporate sectors if possible. Table 4 summarises how we have operationalised the respective criteria for our four demand and growth regimes.

In our analysis we are distinguishing our two periods, a pre-crisis period from 2000-2008, and a crisis and post-crisis period from 2009-2019. For each of the periods, the average values for the relevant variables are presented in Table 5. For the first period, we find export-led mercantilist regimes in Argentina and China, with relevant growth contributions of net exports, high net export shares in GDP and negative financial balances of the external sectors, i.e. current account surpluses. Weakly export-led regimes have dominated in Brazil and Russia. In Brazil we have had positive growth contributions of net exports and a positive net export share in GDP, but also a positive financial balance of the external sector, i.e. current account deficits, due to the net outflow of primary incomes. Russia has seen high net exports as a share of GDP and highly negative financial balances of the external sector, i.e. high current account surpluses, but negative growth contributions of net exports.

The domestic demand-led regime prevailed in India, Mexico and Turkey. Growth was driven by domestic demand only, with small negative growth contributions of net exports. The net export share in GDP was negative, as was the current account balance, indicated by the positive financial balances of the external sectors. Private sector financial balances remained positive, and the public sector was running considerable deficits, in particular in India and Turkey. Finally, we had a debt-led private demand boom regime in South Africa, with high growth contributions of domestic demand, negative growth contributions of net exports, and negative financial balances of the private household sector, indicating that private households were accumulating debt for consumption purposes.

For the second period, we observe considerably lower average real GDP growth rates than in the first period in Argentina, Brazil, Russia and South Africa, whereas China, India, Mexico and Turkey have not seen major changes, albeit at different levels of growth rates. Except for China

and India, this second period has seen a considerable fall in the growth contribution of investment, which even turned negative in Argentina, Brazil and Russia on average over the period, thus contributing to the globally stagnative tendencies after the 2007-09 crisis.

<b>Table 4: Classification of demand-led growth regimes under financialisation</b>	
<b>Export-led mercantilist (ELM)</b>	<ul style="list-style-type: none"> <li>• positive financial balances of the private sector, and the private household sector,</li> <li>• negative financial balances of the external sector,</li> <li>• positive balance of goods and services,</li> <li>• positive growth contributions of net exports.</li> </ul>
<b>Weakly export-led (WEL)</b>	<p>Either</p> <ul style="list-style-type: none"> <li>• positive financial balances of the private sector,</li> <li>• negative financial balances of the external sector,</li> <li>• positive balance of goods and services,</li> <li>• negative growth contributions of net exports.</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>• negative but improving financial balances of domestic sectors,</li> <li>• positive but declining financial balances of external sector,</li> <li>• negative but improving net exports,</li> <li>• positive growth contributions of net exports.</li> </ul>
<b>Domestic demand-led (DDL)</b>	<ul style="list-style-type: none"> <li>• Positive financial balances of the private household sector and positive or balanced financial balances of the private sector as a whole,</li> <li>• balanced or positive financial balances of the external sector,</li> <li>• growth is almost exclusively driven by domestic demand,</li> <li>• around zero growth contribution of net exports.</li> </ul>
<b>Debt-led private demand boom (DLPD)</b>	<ul style="list-style-type: none"> <li>• negative or close to balance financial balances of the private sector,</li> <li>• positive financial balances of the external sector,</li> <li>• significant growth contributions of domestic demand, and private consumption demand in particular,</li> <li>• negative growth contributions of net exports.</li> </ul>
Source: Dünhaupt and Hein (2019: 458).	

**Table 5: Key macroeconomic variables (average values for the respective period)**

	Argentina		Brazil		China		India	
Years	2000-2008	2009-2019	2000-2008	2009-2019 <sup>1)</sup>	2000-2008	2009-2019 <sup>2)</sup>	2000-2008	2009-2019
<b>Real GDP growth, in percent</b>	3.53	0.70	3.78	1.25	10.46	8.02	6.11	6.84
<b>Growth contribution in per cent of real GDP</b>								
<b>Domestic demand</b>	3.32	1.06	3.59	1.31	9.41	8.48	6.58	6.83
<b>Private consumption</b>	2.08	0.77	2.04	1.29	3.03	3.24	3.12	3.75
<b>Public consumption</b>	0.38	0.44	0.53	0.20	1.38	1.46	0.50	0.76
<b>Investment</b>	0.86	-0.15	1.02	-0.19	5.00	3.77	2.95	2.32
<b>Net exports</b>	0.46	-0.17	0.19	-0.06	1.05	-0.47	-0.30	0.06
<b>Net exports as a percentage of GDP</b>	7.10	-0.04	2.72	-0.15	4.57	2.57	-1.62	-3.04
<b>Sectoral financial balance as per cent of nominal GDP</b>								
<b>External sector</b>	-2.23	1.79	1.43	2.95	-4.99	-2.21	0.27	2.23
<b>Public sector</b>	0.07	-4.11	-4.44	-4.83	-1.64	-2.33	-8.61	-6.87
<b>Private sector</b>	2.15	2.32	3.01	1.88	6.63	4.54	8.33	4.64
<b>Household sector</b>	NA	NA	2.19	1.43	NA	NA	NA	NA
<b>Corporate sector</b>	NA	NA	0.81	0.45	NA	NA	NA	NA
<b>Regime</b>	<b>ELM</b>	<b>DDL (PD)</b>	<b>WEL</b>	<b>DDL (PD)</b>	<b>ELM</b>	<b>WEL</b>	<b>DDL (PD)</b>	<b>DDL (PD)</b>
Notes: ELM: Export-led mercantilist, WEL: Weakly-export led, DDL: Domestic demand-led , DDL (PD): Domestic demand-led with high public sector deficits, DLPD: Debt-led private demand. 1) Here, sectoral financial balances refer to 2009-2017. 2) Here, GDP growth and growth contributions refer to 2009-2018. Sources: World Bank (2020), OECD (2020a), ECLAC (2020), IMF (2020) and OECD (2020b), our calculations and presentation.								

Table 5: Key macroeconomic variables (average values for the respective period) continued								
	Mexico		Russia		South Africa		Turkey	
Years	2000-2008	2009-2019	2000-2008	2009-2019	2000-2008	2009-2019	2000-2008	2009-2019 <sup>1)</sup>
<b>Real GDP Growth, in percent</b>	2.23	1.96	6.96	1.04	4.17	1.39	4.93	4.89
<b>Growth Contribution in per cent of real GDP</b>								
<b>Domestic Demand</b>	2.90	1.46	8.15	0.56	5.00	1.59	5.38	4.36
<b>Private Consumption</b>	2.07	1.13	4.25	0.89	2.69	1.10	2.49	2.79
<b>Public Consumption</b>	0.12	0.23	0.45	0.04	0.87	0.44	0.64	0.74
<b>Investment</b>	0.71	0.10	3.45	-0.38	1.44	0.05	2.25	0.83
<b>Net Exports</b>	-0.48	0.46	-0.65	0.58	-0.64	-0.37	-0.45	0.51
<b>Net exports as a percentage of GDP</b>	-2.73	-0.41	12.58	8.01	7.34	-0.35	-2.72	-2.03
<b>Sectoral Financial Balance in per cent of nominal GDP</b>								
<b>External Sector</b>	0.91	1.25	-8.88	-3.62	2.34	3.54	3.16	5.07
<b>Public Sector</b>	-1.35	-2.89	4.25	-1.20	-2.05	-3.61	-5.49	-1.39
<b>Private Sector</b>	0.44	1.64	4.64	4.82	-0.29	0.07	2.34	-3.68
<b>Household Sector</b>	NA	NA	NA	NA	-0.61	-0.73	NA	0.24
<b>Corporate Sector</b>	NA	NA	NA	NA	0.32	0.80	NA	-3.92
<b>Regime</b>	<b>DDL</b>	<b>WEL</b>	<b>WEL</b>	<b>ELM</b>	<b>DLPD</b>	<b>DLPD</b>	<b>DDL (PD)</b>	<b>DLPD</b>
Notes: ELM: Export-led mercantilist, WEL: Weakly-export led, DDL: Domestic demand-led , DDL (PD): Domestic demand-led with high public sector deficits, DLPD: Debt-led private demand. 1) Here, sectoral financial balances refer only to 2009-2017.								
Sources: World Bank (2020), OECD (2020a), ECLAC (2020), IMF (2020) and OECD (2020b), our calculations and presentation.								

Regarding the demand and growth regimes, in the second period, we have had an export-led mercantilist regime in Russia with positive growth contributions of net exports and high deficits of the external sector and hence high and rising current account surpluses. China and Mexico have been weakly export-led: China with still considerable external sector financial deficits and hence current account surpluses, but negative growth contributions of net exports and thus falling current account surpluses, and Mexico with still positive external sector financial surpluses and hence current account deficits, but positive growth contributions of net exports and hence shrinking current account deficits.

India has remained domestic demand-led with high public sector deficits and rising external sector surpluses, and hence rising current account deficits. The same regime can be found as well in Argentina and Brazil, each also with high public sector financial deficits, and private and external sector financial surpluses. Growth contributions of net exports have been falling and the current account has turned negative in Argentina and the current account deficits have further increased in Brazil. South Africa has maintained a debt-led private demand boom regime also after the 2007-09 crisis with negative financial balances of the private household sector and private consumption as the main driver of the low real GDP growth rate. Finally, Turkey has moved towards a debt-led private demand boom regime. The high public deficit of the first period has been replaced by a private one, in which the corporate sector's deficit has become dominant after the 2007-09 crisis. The private household sector only shows a meagre surplus, which means that several households have been running deficits. This change in the regime has been accompanied by a significant increase in external sector surpluses, and hence by a rise of the current account deficits.

Regarding the shift of regimes from the pre-2007-09 crisis to the crisis and post-crisis period, we have seen in Section 2 for the DCEs that pre-crisis export-led mercantilist or weakly export-led regimes have continued with export-led regimes, and that several debt-led private demand boom regimes have moved towards export-led mercantilist or weakly export-led regimes. As counterparts, some other debt-led private demand boom economies have shifted towards domestic demand led regimes with high public sector deficits. In Table 1 visualising these shifts, we have thus seen the countries clustering in the upper right-hand corner.

Such a pattern, i.e. upper right clustering, is not observed for the ECEs considered here in Table 6. Of course, from a global perspective this would have been hardly possible, because at the global level, export-led mercantilist countries need counterpart countries accepting the related current account deficits, either with private sector deficits, i.e. debt-led private demand boom economies, or with public deficits stabilizing a domestic demand-led regime.

<b>Table 6: Shift of demand and growth regimes from 2000-2008 to 2009-2019</b>					
		<b>Second period (2009-2019)</b>			
		Debt-led private demand (DLPD)	Domestic demand-led with high public sector deficits (DDL (PD))	Weakly export-led (WEL)	Export-led mercantilist (ELM)
<b>First period (2000-2008)</b>	Debt-led private demand (DLPD)	South Africa			
	Domestic demand led with high public sector deficits (DDL (PD))	Turkey	India	Mexico	
	Weakly export-led (WEL)		Brazil		Russia
	Export-led mercantilist (ELM)		Argentina	China	

Looking at the shift of regimes from the first to the second period, for the eight ECEs considered here, the pattern is more diverse than for the DCEs. Only Russia and Mexico have become more export-oriented, Russia moving from weakly export-led in the first period towards export-led mercantilist in the second, and Mexico moving from domestic demand led towards weakly export-led. For the other six countries, the regimes turned less export oriented, i.e. they can be found in the lower right-hand corner in Table 6. South Africa has remained debt-led private demand boom and Turkey has turned towards this regime from domestic demand led. India remained domestic demand led, stabilised by government deficits, and Brazil and Argentina turned towards this regime, too, from weakly export led in the case of Brazil and from export-led mercantilist in the case of Argentina. China moved from export-led mercantilist to weakly export-led.

If we relate these shifts in regimes with the distributional tendencies for the pre- and post-crisis periods identified in Section 3, we also have to consider the estimation results regarding the wage- or profit-led nature of demand in these countries (Table 7). In these estimations, a country is considered to be wage-led if a fall in the wage share dampens aggregate demand, and a country is profit-led, if a fall in the wage share raises aggregate demand. It should be clear that this distinction does not imply that in wage-led economies, wage shares are indeed rising and thus fostering aggregate demand and GDP growth, or that in profit-led economies profit shares are increasing and stimulating aggregate demand and growth. Therefore, following the distinction by Lavoie and Stockhammer (2013), a wage-led demand regime does not

necessarily imply that pro-labour policies are introduced – and a profit-led demand regime does not mean that pro-capital policies prevail. It should also be clear that the wage- or profit-led nature of demand does not uniquely imply whether a country is following a debt-led private demand boom regime, a domestic demand-led, a weakly export-led or an export-led mercantilist regime, because these categories are located at different analytical levels. For example, total demand in India and South Africa are both estimated to be profit-led, but, according to our analysis, India has been following a domestic demand-led regime with high government deficits, whereas South Africa was characterised by a debt-led private demand (boom) regime, each of them before and after the 2007-09 crisis.

From Table 7 we can see that the estimated results for the effects of changes in functional income distribution on domestic demand, i.e. on consumption and investment demand, are unique: Domestic demand seems to be wage-led in all of our countries for which we have estimation results – for Russia there are no results yet. When we include the effects of re-distribution on the demand for exports and imports, i.e. on net exports, the results for total demand are less clear-cut. For Argentina, Brazil, China and Mexico, some studies find total demand to remain wage-led whereas others derive a dominance of the effects of re-distribution on net exports and thus conclude that total demand in these countries is profit-led. For India and South Africa we only have studies with profit-led total demand, whereas Turkey seems to be uniquely wage-led.

From these results we can infer that the increase in the wage share (and the fall in overall inequality by some indicators) in Brazil and Argentina has contributed to shifting these countries to a domestic demand-led regime in the second period, because it has improved the relative importance of domestic demand over net exports. For the same reason, the increase in the wage share, and the fall in inequality, in China has contributed to shifting China's regime from export-led mercantilist to weakly export-led with negative growth contributions of net exports. For Mexico, the fall in the wage share dampening domestic demand, has contributed to shifting this economy to a weakly export-led regime. For the other countries the influence of distribution is less clear-cut. In India, a profit-led economy according to the econometric estimation, the fall in the wage share should have boosted private demand, dampening consumption demand but lifting net exports even more. However, this is not exactly what happened, and the regime has still been dominated by deficit financed government expenditures. In South Africa, also a profit-led economy according to the estimations, with slight increases in the wage share in the second period, the economy has remained in the debt-led private demand regime, with relevant private household sector deficits. And in Turkey, a wage-led economy according to the estimations, a rise in the wage share in the second period has been associated with a debt-led private demand boom regime, with high deficits in the corporate sector, but also in several parts of the private household sector, since the financial balance of the private household sector as a whole has been close to zero.

Country	Domestic demand		Total demand	
	Wage-led	Profit-led	Wage-led	Profit-led
<b>Argentina</b>	Onaran and Galanis (2014): 1970s-2007			Onaran and Galanis (2014): 1970s-2007
	Alarco Tosoni (2016): 1950-2012		Alarco Tosoni (2016): 1950-2012	
	Reyes (2019): 1970-2017		Reyes (2019): 1970-2016	
<b>Brazil</b>	Araujo et al. (2012): 2002-2008			Araujo et al. (2012): 2002-2008
	Alarco Tosoni (2016): 1950-2012		Alarco Tosoni (2016): 1950-2012	
	Reyes (2019): 1970-2016			Reyes (2019): 1970-2017
	Tomio (2020): 1956-2008		Tomio (2020): 1956-2008	
<b>China</b>	Molero Simarro (2011): 1978-2011. At the mean and 1979 level	Molero Simarro (2011): 1978-2011. At the 2007 level		Molero Simarro (2011): 1978-2011
	Onaran and Galanis (2014): 1970s-2007			Onaran and Galanis (2014): 1970s-2007
	Jetin and Reyes (2020): 1982-2016		Jetin & Reyes (2020): 1982-2016	
<b>India</b>	Onaran and Galanis (2014): 1970s-2007			Onaran and Galanis (2014): 1970s-2007
<b>Mexico</b>	Onaran and Galanis (2014): 1970s-2007			Onaran and Galanis (2014): 1970s-2007
	Alarco Tosoni (2016): 1950-2012		Alarco Tosoni (2016): 1950-2012	
	Reyes (2019):1970-2017		Reyes (2019):1970-2017	
<b>South Africa</b>	Onaran and Galanis (2014): 1970s-2007			Onaran and Galanis (2014): 1970s-2007
<b>Turkey</b>	Onaran and Galanis (2014): 1970s-2007		Onaran and Galanis (2014): 1970s-2007	
			Kurt (2020): 1988-2017	

Source: Jimenez (2020), our extensions and presentation.

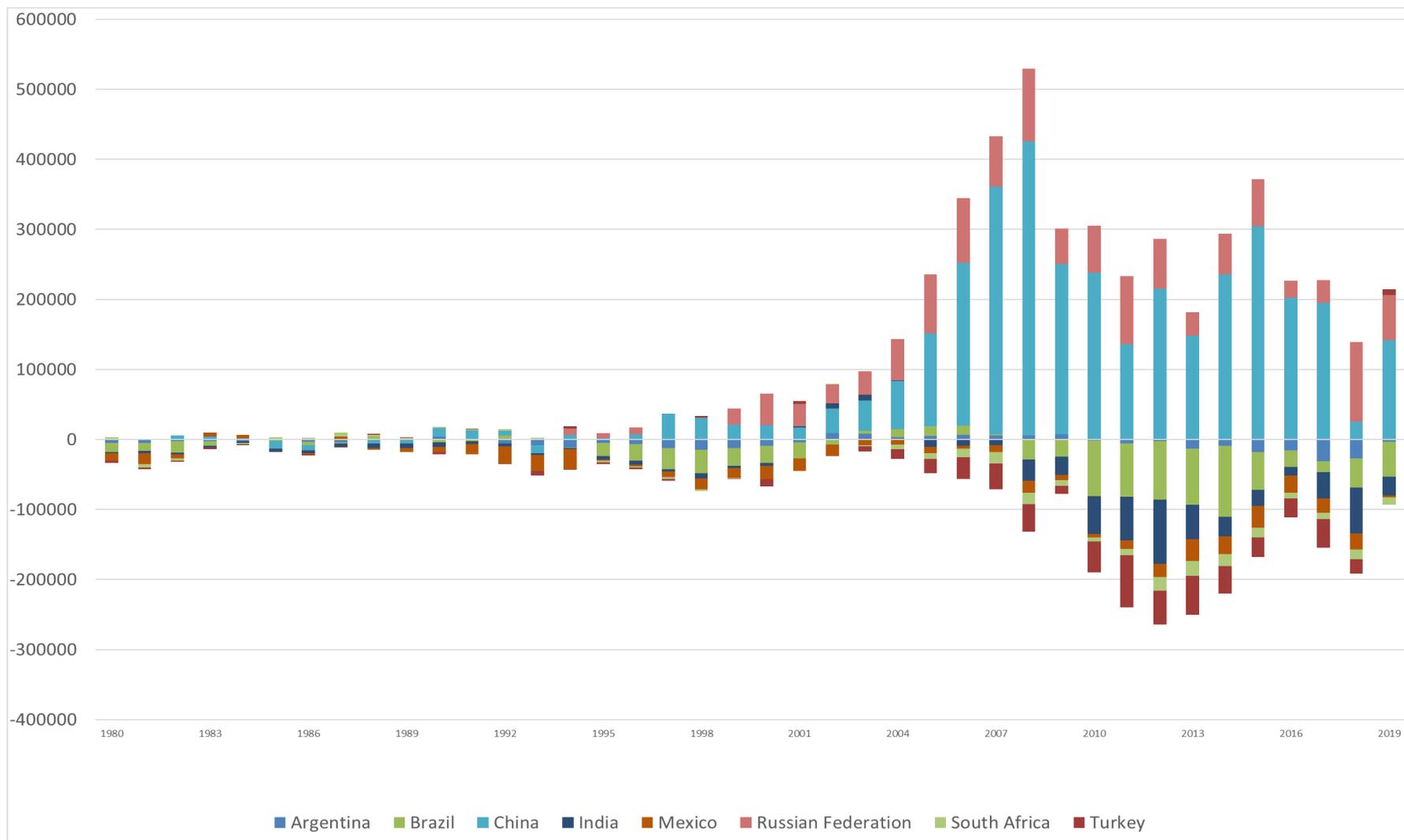
Finally, we can assess the regimes being found for our eight ECEs in the global context. In the first period, China and Russia with major current account surpluses were contributing to the global imbalances before the 2007-09 crisis, whereas the current account deficits in the other six countries remained small (Figure 2). In the second period, surpluses of China have been shrinking in the context of moving towards a weakly export-led economy, whereas Russian surpluses persisted by and large, as part of this economy moving towards an export-led mercantilist regime. The current account deficits of the other countries, however, have been rising

significantly compared to the pre-crisis period, in particular in Brazil, India and Turkey, and less so in Argentina and South Africa, and even still in Mexico. The current account deficits of these emerging capitalist debt-led private demand boom and domestic demand-led economies stabilised by government deficits have thus become the global counterparts, together with those by Australia, France, the UK and the US (Figure 1), to the current account surpluses of the export-led economies, i.e. China and Russia among the emerging capitalist economies, together with Germany, Japan, Italy, Korea, Netherlands, Saudi Arabia and Spain (Figure 1).

This global pattern can be linked to the observation of a global financial cycle referred to in Section 3, and thus to the policy decisions of the DCEs in response to the Global Financial Crisis and the Great Recession, in particular. In the first period, the debt-led private demand boom regimes in some DCEs until 2007-09 also generated demand for the ECEs and allowed for a balanced or even export-led expansion there. In the second period, however, the prevailing policy responses in the Eurozone and certain other DCEs, i.e. austerity, resulted in regime shifts towards export-led in several DCEs, which in turn also affected the ECEs' export markets. Low interest rate policies coupled with the expansion of central bank balance sheets in the DCEs then allowed for debt-led expansion in many ECEs. This tendency has been facilitated by an increase in several financialisation indicators in these countries, as outlined in Section 3, and it has re-enforced this increase in 'dependent financialisation'.

The shifts in regimes at the global level and the persisting global current account imbalances contain several severe risks. First, the movement towards export-led mercantilist regimes in major parts of the developed capitalist world, in particular in the Eurozone, means a compression of global demand generation and thus it contributes to global stagnation tendencies. Second, the tendency towards export-led regimes with rising current account surpluses requires the acceptance of rising current account deficits in other parts of the world economy. Financially, this is not a problem for countries, which can issue debt in their own currency, like the US and the UK. However, there may be economic and political limits for the acceptance of high and persistent current account deficits, e.g. the loss of employment opportunities, even in these countries. Moreover, and more worrisome, there are financial limits for the emerging capitalist current account deficit countries, which cannot issue debt in their own currency. Here the problems of latent over-indebtedness in foreign currency and the danger of sudden stops of capital inflows and capital flights arise – as can already be observed in the current Covid-19 crisis which has started in early 2020 (European Commission, 2020).

**Figure 2: Current account balance in current US\$, Argentina, Brazil, China, India, Mexico, Russia, South Africa, and Turkey, 1980-2019**



Source: IMF (2020), our presentation.

## 5. Conclusions

In the last decade, understanding the key dynamics of diverging demand and growth regimes in both DCEs and ECEs has become an attractive issue among CPE scholars and within heterodox economics. This renewed attention to the subjects of classical political economy also highlights new intersections between different academic disciplines, although the majority of these studies are focusing on DCEs. In this paper, we expanded the analysis to the global South and investigated pre- and post-2007-09 crisis demand and growth regimes for eight large ECEs. We also linked the effects of financialisation in ECEs to their demand and growth regimes.

One of the main findings of our research is that the ECEs did not follow the same path as the DCEs in the post-2007-09 period in terms of their demand and growth regimes. While there was a clear shift in demand and growth regimes towards export orientation in most of the DCEs, in the ECEs we rather find a tendency towards – or the continuation of – domestic demand-led regimes, stabilised by government deficits, and even debt-led private demand boom regimes. From our eight main ECEs, only Russia followed an export-led mercantilist regime after the crisis, and even China, one of the major export-led mercantilist regimes before the crisis, turned towards weakly export-led with shrinking net exports and current account surpluses.

According to our analysis, the main reasons behind this development in the ECEs have been improved income distribution in some countries, on the one hand, which helped to stabilise income-financed domestic demand. Internal devaluation through wage moderation or even cuts, a strategy followed in several export-led mercantilist DCEs after the crisis, was hence not the strategy of choice in the ECEs, at least so far. On the other hand, we have seen a further increase in dependent financialisation in several ECEs, which, together with low interest rate policies and multiple waves of quantitative easing programmes in the DCEs, made several ECEs follow a debt-led regime after the crisis. Together with stagnating export markets in major parts of the global North, this made several ECEs the global counterpart to the export-led mercantilist countries of the global North, together with countries like Australia, France, the US and the UK from the global North, of course.

Finally, we have argued that this global regime pattern and the persistence of global current imbalances contains the roots of future instabilities, both for the debt-led ECEs and for the global economy as a whole.

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