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The International Division of Finance: reassessing the peripheral condition in a financialised capitalism

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Abstract:

Inspired by the structuralist theory, but advocating for a need of framing the discussions in the current historical context – characterized by financialisation and financial globalization –, this article investigates the centre-periphery configuration of the global economy with the focus on the monetary-financial sphere. More specifically, it aims to analyse the role of the peripheral countries for the current International Monetary and Financial System (IMFS). In a dialogue with the discussions related to the International Division of Labour (IDL), the article thence proposes and conceptualizes the International Division of Finance (IDF), as well as its corresponding structural differentiation and structural tendency. It argues that the IDF is not accidental, but plays a fundamental role in the *modus operandi* of the reproduction of wealth in international financial circuits. Along with the IDL (in its contemporary format), it generates a 'double-capture of wealth', in which there is a structural tendency for a net transfer from the peripheral economies to the central ones. As a result, the IDL and the IDF have feedback effects, deepening the subordination, the lack of autonomy for economic policy and the vulnerability of peripheral countries.

Keywords: structuralism, centre-periphery, peripheral condition, structural trends, International Division of Finance.

JEL: E44, F33, F36, G11

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1. Introduction

The division of labour is one of the most recurrent themes in the history of economic thought, having been addressed since the very birth of modern Western economics, with Adam Smith. Through the classic example of the production of pins, the author highlights the productivity gains arising from productive fragmentation. Not long after, David Ricardo (1817) transposed this reasoning to the sphere of international economics, suggesting that the same benefits of the division of labour would be obtained on a global scale, through international free trade. The author suggests that different countries in the world should take advantage of their natural endowments, specializing in the production of goods in relation to which they have comparative advantages.

In the 20th century and early 21st century, some of the best-known models of international economics continued to be based on Ricardian precepts of comparative advantages (e.g. the Heckscher-Ohlin model, used for instance in Bajona and Kehoe 2010). In the same vein, mainstream economics, while not necessarily mentioning the term ‘comparative advantages’ – let alone ‘International Division of Labour’ (IDL) – continues to preach that countries should specialize, taking advantage of their endowments.

However, despite the fact that within the mainstream there was a line of continuity in relation to the proposal of ‘comparative advantages’ - which, in the end, is in harmony with the defence of non-state intervention and free market -, critical authors sharply pointed out the problems of the reasoning indicated above. In the 19th century, Marx (1887, p. 451) was already criticizing the consequences of the IDL: ‘a division suited to the requirements of the chief centres of modern industry springs up, and converts one part of the globe into a chiefly agricultural field of production, for supplying the other part which remains a chiefly industrial field’.

In Latin America, this critique of the IDL and the framework of comparative advantages gains body and theoretical depth. Under the intellectual leadership of Raul

Prebisch, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) became a rich space for debates on the asymmetries of the international trade, which allowed the development of a theoretical framework that perceives the world as a space which is clearly divided between a centre and a periphery (for the most important works of ECLAC, see Bielschowsky 2016)[3].

According to the classical division, the centre was a producer of industrial goods and the periphery was rather a producer of agricultural and mineral goods. In the end development and underdevelopment not only coexist, but complement each other, retro-feed each other. Underdevelopment is not a stage for development, but a condition of stagnation. It is not a deviation in the development process, and it is in no way separate from the functioning of central capitalism, but rather fuels it. More clearly, the development of the centre requires – and promotes – the underdevelopment of the periphery; the underdevelopment of the periphery is functional to the development of the centre.

This pervasive criticism, along with the deepness of its theoretical construction allowed intellectuals and policy makers not only from Latin America, but also from Africa and Asia to think differently about the condition of a peripheral economy. However, like any investigative framework that tries to understand reality, its contributions have to be understood and used in a dynamic manner. Hence, it's important to remind the historical context in which these debates were taking place. After the serious instabilities and losses of the two world wars and the 1929 Crisis, and facing the emergence of a concrete economic alternative - Soviet socialism - the main capitalist countries of the world adhered to the Bretton Woods Agreement, which sought to provide a certain ordering to the International Monetary and Financial System (IMFS). Mainly through capital controls and an intended fixed exchange rate regime, it was possible to temporarily avoid speculative capital flows and currency wars, attributing relative stability to global finance - or, at least, less frequent financial crises[4]. Thus, even though financial stability in the periphery was

[3] In a very interesting dialogue with ECLAC, the different branches of the Dependency Theory have also contributed (in diverse ways) to the discussions regarding the peripheral condition (e.g. Cardoso and Faletto 1969; Marini 1973).

[4] Helleiner (1994) accurately indicates various problems for the full implementation of the Bretton Woods Agreement. In spite of these problems, it is undisputable that the international flows were less unstable than they would become after the disruption of this system, in 1971-3.

already lower than in the centre, most ECLAC authors concentrated their studies on the productive-technological aspects, not delving into monetary-financial issues[5]. However, aware that the context has completely changed, the debates require updates, and very interesting efforts have been made in this direction.

First of all, these updates take into consideration the new reality of global production in late 20th century and early 21st century, in which the classic division between a centre producing manufactured goods and a periphery producing only agricultural and mineral goods is no longer verified. Currently, a large share of the global industrial production takes place outside the centre, especially in Asia. For this reason, many authors, in diverse theoretical strands make allusion to a 'New International Division of Labour', associated to the organization of the world industry in the Global Value Chains (GVCs)[6]. However, in many of these analyses, the monetary-financial dimension continues to be left in the background.

In parallel, several authors are following the transformations of the world economy in the last decades with focus in the monetary-financial dimension, and their differentiated traits on centre (or developed or advanced) economies and peripheral (or developing or emerging) ones[7]. Among them, two very interesting frameworks should be highlighted. The first one studies the 'subordinated financialisation' (e.g. Kaltenbrunner and Painceira 2017; Bonizzi, Kaltenbrunner and Powell 2020; Lapavitsas and Soydan 2020; Martínez and Borsari 2022), highlighting the peculiarities of this new phase of capitalism in the so-called emerging/developing countries, the deepened subordination of these countries in the global structure and the resulting increase in their economic vulnerability. The second one regards the 'currency hierarchy' framework (e.g. Carneiro 1999; Prates 2002; Kaltenbrunner 2015; Fritz, Paula and Prates 2018), focusing on the asymmetries of the International Monetary and Financial System (IMFS) and the resulting macroeconomic instability and reduced policy space for countries issuing weak currencies.

[5] It does not mean however that these authors were not aware of the financial aspects of the peripheral condition, notably in what regards the inflationary pressures and the balance of payments gaps.
[6] For a compilation of the discussions on the New IDL, see Charnok and Starosta (2016).
[7] Authors vary in the denomination of the two group of countries, sometimes using them as synonymous. Adhering to ECLAC's framework, this article refers to centre countries and peripheral ones, to highlight that this last group of countries is neither developing nor emerging.

Both frameworks are extremely interesting and useful for the understanding of the current phase of the world economy. Yet, we argue that it would be possible to give more emphasis to a crucial aspect, which constitutes the main hypothesis of this article: these hierarchies do not result from any unconformity or dysfunctionality of the IMFS. They are rather the concrete expression of the very essence of capitalism in what concerns its monetary and financial dimension. Capitalism needs these hierarchies. It creates it, recreates it and deepens it throughout history. Its *modus operandi* requires – and generates – heterogeneities, and these hierarchies are adapted to each historical moment and the corresponding institutionality. They were present during the gold-standard, during the Bretton Woods system, and in the current context of financialisation they reach a paroxysm. More importantly, these hierarchies have a functionality for the capitalist system[8].

Thence, beyond discussing the main traits and consequences of this subordinated condition, this article aims to analyse the *role* of the peripheral countries for the IMFS. With this aim, the main contribution of this text is theoretical, arising from the presentation and discussion of the concept of the *International Division of Finance* (IDF), derived from the debates on the International Division of Labour (IDL)[9]. In doing that, we agree with the authors who advocate that the classical studies by ECLAC are very insightful for the understanding of the interaction of centre and peripheral countries in the current context (e.g. Fischer 2015), even – we would add – when we shift the attention from the productive-technological dimension to the monetary-financial one.

In addition to presenting a concept for the IDF, the paper complements it with the conceptual definition of both the structural differentiation and the structural tendency that unfolds from this division. In sum, we explore the current configuration of the concept of 'peripheral condition' (or 'peripherality') in the monetary-financial dimension, which, ultimately, alludes to the relationship of functionality and dependence through which the finances of peripheral economies are structurally articulated to the finances (and the predominant logic of accumulation) in central economies.

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[8] Bonnizzi *et al.* (2020) allude for the functionality of the current IMFS for the extraction of value from the world periphery.
[9] And based in the proposal by Lima (2013).

Therefore, this study contributes to the literature which explains the distinctive structural properties of peripheral economies relative to central economies, by discussing the terms that mediate the peripheral condition in the monetary-financial dimension, emphasizing the different roles which are played by central and peripheral assets and currencies for the portfolios of the international investors. The relevance of this topic lies in the perception that in spite of the appropriate and instigating works discussed above, there is still a big margin for contributions in the field of 'International Financial Subordination' (as proposed by Alami *et al.* 2019), notably because modern finance has significant social implications (Storm 2018), which tend to be more severe in the periphery of the world[10].

In addition to this introduction, this text is composed as follows. The second section presents and discusses some critical notions concerning the concept of the International Division of Finance. The third section defines the underlying structural differentiation. The fourth section indicates the structural trend of the IDF, which configure what we name as a 'double capture of wealth'. Some final remarks conclude the article.

2. Conceptualizing the International Division of Finance

The peripheral condition – which is the reality of the majority of countries in the world – must be certainly examined in its integrality. After all, the economic development of the central countries was associated to the constitution of this periphery, a movement which was very explicit through the constitution of the formal colonies, but which prevailed also through various non-formal political and economic channels. Prado Jr (1981) for instance is eloquent in showing that in some countries the formation of a national economy and a national society was fully framed to configure an appendix to the central countries. Ideally therefore, we should be always seeking for the comprehension of this peripheral condition – or peripherality – in its entireness.

[10] In this same direction, but focusing on the dependency theory, Reis and Oliveira (2022) made a very interesting contribution in showing that peripheral financialisation transformed dependency, but reproducing its main characteristic, namely, the super-exploitation of labour. Also showing the differences between the effects of financialisation over centre and peripheral countries, Santos (2022) discusses its effects on the states.

Nevertheless, for analytical purposes, it is useful to concentrate the scrutiny in specific dimensions of the whole, even because it facilitates a future – and very pertinent, as we will argue below – effort of reconstituting the analysis in its integrity. In this sense, we claim that the structural transformations of the world economy in the last half-century – discussed by the literature on financialisation (e.g. Lapavitsas 2011; Van Der Zwan 2014) and financial globalization (e.g. Chesnais 2005) – require the formulation of an additional concept capable of analytically capturing the different forms of insertion of peripheral economies in the global spaces. Based in Lima (2013), this article endorses therefore the pertinence of conceptualizing and discussing the 'International Division of Finance' (IDF), conceiving it as one of the pillars of contemporary capitalism.

Given the centrality of money for the capitalist economy (highlighted by diverse authors, such as Marx and Keynes), the IDF is based on a hierarchical division of national currencies (and the corresponding financial assets) at a global level, forming a relationship between the different economies that, far from being accidental, gives to the peripheral economies a functional role to the dynamics of the wealth valorisation in the financial spheres, where the main beneficiaries are the central economies[11].

The IDF has its core in the USA (hegemonic central economy) due to the monetary and financial dominance that they exercise at a global level[12]. Some other central countries are also issuers of currencies which are general representants of abstract wealth at a global level, preserving at this level the quality (or the attributes) of money and therefore the liquidity which in inherent to money[13]. On the other hand, the majority of countries in the world issues currencies which may be representants of general wealth at the national level (in the countries where they are issued), but not at the world level. In consequence, these peripheral currencies do not possess at this level the liquidity which is inherent to an international currency[14].

[11] It is obvious that residents of peripheral countries may also benefit from this dynamic, but in aggregated terms the central economies are those which take more advantage of the IDF, as we will indicate below.
[12] For details, see for instance Kaltenbrunner and Lysandrou (2017). This monetary and financial dominance is obviously related to the productive-technological and geopolitical dominance.
[13] According to Orléan (1999), liquidity is not an attribute of assets, but rather of the markets in which they are transacted. Nonetheless, money, being immediate purchasing power, is the only asset which is liquid by definition.
[14] Named by De Conti (2011) as 'international currency liquidity'.

As a consequence, peripheral currencies and assets provide structural attributes which are very different from those of the central currencies and assets, but are necessary for the dynamic of accumulation undertaken in central countries. After all, portfolio choices are based on the trade-off between risk and yield (Hicks 1962). Hence, these peripheral currencies and assets, being illiquid at the global level, will be only demanded by international investors if they offer high yields. Thus, these assets may be important in the portfolios of prominent global investors (specially the institutional investors), primarily based in the central economies to ensure levels of profitability that, in general, are not offered by the more liquid assets available in the financial markets of central economies[15].

Peripheral assets thus constitute the element for the adjustment of the pay-off expected for the portfolios. At the same time, in the current context of financialisation and financial globalization – and the associated movements of markets' decompartmentalization and deregulation –, they correspond to the portion of the portfolios that are most directly impacted by changes in the 'mood' of international investors and that, therefore, are most immediately impacted when sudden changes occur in the state of prevailing expectations. Thus, the assets of peripheral economies play a well-defined role in the portfolios of international investors, being a 'target of desire' in times of ample conditions of high international liquidity and low risk aversion – in view of the recovery of deteriorated profits in past periods, or by the simple desire to obtain extraordinary gains driven by enthusiasm for the expected performance of future economic activity[16]. Peripheral assets are therefore 'the adjustment variable for the fluctuations of the economic cycle that plays an auxiliary role in the financial valorisation of the capital of the central countries' (Lima 2013, p. 79).

In fact, when central economies promote systematic interest rate reductions to stimulate the economic activity, they are primarily encouraging the provision of cheap credit to corporations and financial institutions. Nonetheless, the wide availability of liquidity and the consequent systematic reduction in risk aversion in the centre countries

[15] It does not mean that central currencies' residents do not issue also assets of high risk and potentially high yields, but the structural characteristics of peripheral economies make them the suppliers *par excellence* of this sort of assets. Additionally, the extreme exchange rate volatility of some peripheral currencies enables them to offer exorbitant gains (or losses), as we will discuss below.
[16] It is also important to consider that the international investors are competing among themselves for the highest rentabilities, so in a context of euphoria there is a massive chase for extraordinary yields.

generally culminate in an unrestrained search for yields in the high-yield markets. These ascendant phases in international liquidity cycles result in a strong shift in financial flows to peripheral economies[17]. Along with the potentially high yields offered by these assets in the national currencies, there is another element which is sometimes even more important for the general rentability of the asset in US dollar: the exchange rate variations. Since peripheral currencies are normally subject to high volatility on their exchange rates (De Conti 2011; Ramos 2016), the currency appreciation – which is the tendency in moments of abundant liquidity – may provide also high gains for the asset's holder (configuring the so-called 'double gain')[18].

In these moments, agents seek to recover part of the deteriorated profitability rate of their portfolios in periods of greater risk aversion, when the predominant strategy consisted basically in partially or fully sacrificing the riskiest assets in order to increase the level of security and liquidity of their portfolios. A crucial point to grasp is that these actions are not individual, since most global investors follow the international conventions in a typical movement of herd behaviour. As a result, it gives rise to an intense though circumstantial (or cyclical) demand for these assets supplied by peripheral economies.

However, whenever – and for whatever reason – there is a change in the 'market sentiments', with the increase of risk aversion and the implementation of a more contractionist monetary policy in the hegemonic economy, there is a flight to quality, that is, a massive displacement of these capitals to markets and assets perceived as more liquid and safer. This reversion in the international liquidity cycles results in liquidity shortages in the most financially fragile economies, with harmful consequences for the national economies (e.g. exchange rate depreciation, inflation, defaults in the external debt)[19].

It is therefore clear that the IMFS is characterized by countries issuing two qualitative distinct classes of financial assets: peripheral assets and currencies (of low international liquidity and potentially high profitability), which fulfil the function of increasing (or recompositing) the profitability of the portfolios of global investors,

[17] Fischer (2015) shows that it has been the case in the 1970s and also in the aftermath of the outbreak of the Global Financial Crisis (GFC).
[18] For details, see for instance Bortz and Kaltenbrunner (2017).
[19] Through a diverse methodological approach, even some mainstream authors, such as Rey (2015), currently discuss the sensibility of the so-called 'developing' countries to the international cycles originated in the centre countries.

allowing the valorisation of their assets; and central assets and currencies (of high international liquidity) used in the defence and maintenance of the wealth stock and or in the recompositing of the liquidity of the portfolios by international investors. As a consequence, central assets are observed by international investors (and credit rating agencies) in a rather long-term perspective, whilst for peripheral assets the only horizon which matters is the short-run.

Following the reasoning, this article conceives that, using a historical-structural method, the concept of the IDF cannot do without the explicit definition of a structural differentiation linked to it. In other words, the international division only acquires internal analytical consistency with the historical-structural method when associated with a specific structural differentiation that mediates the comprehension on how central and peripheral economies are inserted in this general system. Explaining the structural differentiation underlying the IDF in contemporary times is the objective of the next section.

3. Structural differentiation underlying the International Division of Finance

Latin American structuralism was responsible for providing a sophisticated explanation of the structural factors related to the technological and productive backwardness experienced by Latin American economies, based on the centre-periphery approach. Using the structural-historical method, the pioneers of this school of thought sought to understand the structural factors, that is, the interrelationships and systemic properties underlying peripheral countries. These structures would be responsible for conditioning, on a large scale, the results obtained by the peripheral economies when establishing trade relations with the central economies in the different phases of the economic cycles.

The peripheral condition is manifested in the so-called *structural differentiation*, that is, in the different functions that central and peripheral economies perform when interacting within a general system. In other words, the structural differentiation reflects the specialization for which peripheral and central economies are oriented in the IDL. This productive specialization of late 19th century and part of the 20th century was responsible for organically connecting, on the one hand, a primary goods exporting periphery and, on the other, manufacturing exporting central economies.

As discussed above, the use of these analytical categories becomes justifiable in contemporary studies when the analysis in question tries to characterize the relationship of functionality and dependence that peripheral economies establish concerning central economies in the monetary-financial dimension. It is in this analytical context that the centre-periphery dichotomy can be evoked nowadays under the international division and the structural differentiation underlying the monetary-financial dimension.

From the discussions developed in the preceding section, we may state that the IDF is based on a structural differentiation which has a long existence, but which became much clearer in the context of the financialisation and financial globalization[20]: in the monetary-financial dimension, the world economy is divided into a periphery that fulfil the role of providing assets and currencies that enable the diversification of the international investors' portfolios and, most importantly, the valorisation and recompositing of these portfolios profitability. In contrast, the centre offers assets and currencies that provide the maintenance/defence of the equity value and the recompositing of the portfolios' liquidity; and has also the role of enabling the assumption of liabilities with low costs, frequently used to finance the acquisition of high yield assets in the periphery[21].

This structural differentiation generates several consequences for the peripheral countries, that may be organized under three main burdens. First of all, the cyclical conditions observed in the central economies constitute the factors that modulate the dynamics of international capital flows destined for peripheral countries, as discussed in the second section. This dynamic makes explicit one of the main forms of manifestation of the peripheral condition in contemporary times, as it expresses the relationship of functionality of peripheral finances along with the logic of accumulation of central countries, but also of *dependence*. After all, given the function of peripheral assets within the IDF, capital flows destined for peripheral economies structurally depend on economic cycles observed in central economies (particularly in the hegemonic economy).

[20] Given the financial opening up process of most peripheral economies and the consequent integration of their financial assets into the portfolios of the international investors.
[21] Configuring the carry-trade operations.

Furthermore, this peripheral condition is associated also to the externalization of the dynamic axis and the decision-making centres[22] (Furtado 1964), since the magnitude and destination of these same financial flows are products of the dynamics and decisions based in the central economies. After all, most of the investors that own these portfolios on a global level have their economic activities headquartered in the central countries. Moreover, the different phases of the international liquidity cycles are originated by the risk aversion of these same investors and, very importantly, from the monetary policy implemented in the central countries. As a result, the policies and economic dynamics of central countries imply *restrictions on the degree of decision-making autonomy* for peripheral economies, that is, the options available to peripheral economies in terms of economic strategies and policies[23]. Asymmetrically, peripheral countries are generally not capable of influencing decisions and strategies adopted by central countries.

Finally, this whole dynamic makes it very evident that most peripheral countries are still subject to an *extremely high vulnerability*. The necessity of accumulating international reserves is an unquestionable demonstration of this vulnerability, and even when they are extraordinarily large they are not capable of fully combating it, because in the current context of financialisation the channels through which the oscillations of the international economy are transmitted to peripheral economies are various (e.g. commodities prices, exchange rate movements, wealth-effects provoked by oscillations in the prices of financial assets, operations with derivatives)[24].

Summing up, we argue that the most important burdens of the so-called developing or emerging countries in the monetary-financial sphere, which have been very interestingly debated in the literature, emanate from the structural differentiation of centre and peripheral countries within the IDF. More specifically, dependence (e.g. Fischer 2015; Ocampo 2001), lack of policy space (e.g. Bonizzi, Kaltenbrunner and Powel 2020; Fritz, De Paula and Prates 2018; Kaltenbrunner and Painceira 2017; Prates 2020) and extreme vulnerability

[22] That is, the centres (or the agents) which take the important decisions related to these wealth stocks – and consequently, to the financial flows.
[23] For analysis on the reduced policy space for peripheral countries, see Bonizzi, Kaltenbrunner and Powel (2020) and Prates (2020), among others.
[24] See for instance Fischer (2015), Rosa (2020) and Martínez and Borsari (2022).

(e.g. Akyüz 2017; Fischer 2015; Rosa 2020; Martínez and Borsari 2022) are associated to the functionality of peripheral countries within the IDF.

To conclude, it is important to recognize that this effort to advance the understanding of the IDF would not be complete without an analytical discussion about its main structural trends for peripheral economies.

4. Identification of the main structural trend of the International Division of Finance

The application of the structural-historical method allowed Prebisch (1949) to challenge the 'Ricardian theorem' that productive specialization would shape an IDL in which there would emerge a relatively equitable propagation of the benefits of technical progress both in industrialized countries and exporters of raw materials. The Argentine economist's merit was to demonstrate a certain structural tendency to concentrate these same benefits in central economies at the expense of peripheral economies, since the deterioration of the terms of trade experienced by the periphery would further deepen peripheral dependence over time. According to Fischer (2015), this trend is still observed in the world economy.

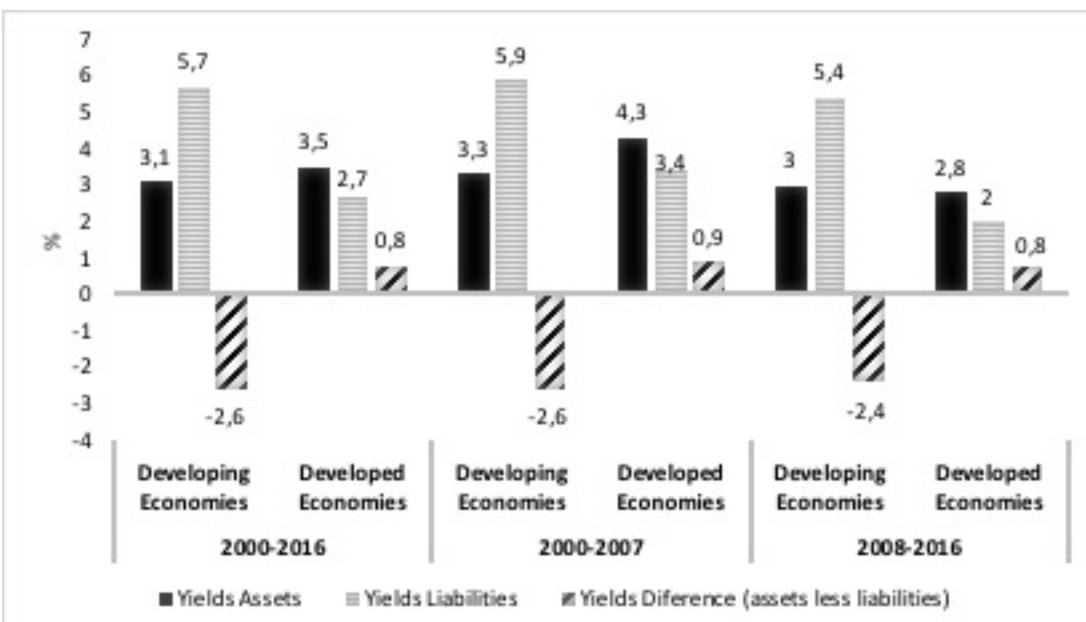
Similarly, taking benefit of the data presented by Akyüz (2021), this section will indicate a structural pattern emerging from the IDF that, if not blunt on short-term scrutiny, seems to be reasonably persistent in longer-term analyses. The trend alluded to is that peripheral economies are articulated with central economies in order to conform to a process of a net transfer of wealth, related to financial incomes and capital gains, from the former to the latter. Recognizing this trend is also important for a proper comprehension of the functionality of the periphery for the IDF, discussed in the preceding section.

With this aim, a crucial investigation regards the interaction between the rentability and capital gains of assets and liabilities earned/paid by the two groups of countries we are here contemplating, namely, central and peripheral countries. Relatedly, we have to understand the pattern of interaction between the balance sheets of agents in centre and peripheral countries, which is as follows: i) most of the peripheral countries' liabilities correspond to central countries' assets; ii) most of the peripheral countries' external assets are denominated in central currencies[25].

Through Figure 1, it is possible to verify that peripheral economies received yields on their gross foreign assets lower than those earned by central economies. When disaggregating the period in two subperiods (before and after the outbreak of the GFC), we see that between 2008 and 2016, the returns of peripheral economies related to their gross assets was higher than those achieved by central economies. However, the difference in returns obtained by peripheral and central economies between 2000 and 2007 was highly favourable to the group of the latter, having more than offset the lower return of the subsequent subperiod.

Concerning the yields associated with the gross external liabilities of the two sets of countries, the differential in the rate paid by peripheral economies vis-à-vis the central ones is even more significant (Figure 1). Between 2000 and 2016, peripheral economies aggregately paid on their gross external liabilities a rate of return of 5.7 per cent against a rate of 2.7 per cent paid by the group of central economies.

Figure 1. Yield Rate of Gross Foreign Assets and Liabilities (%)



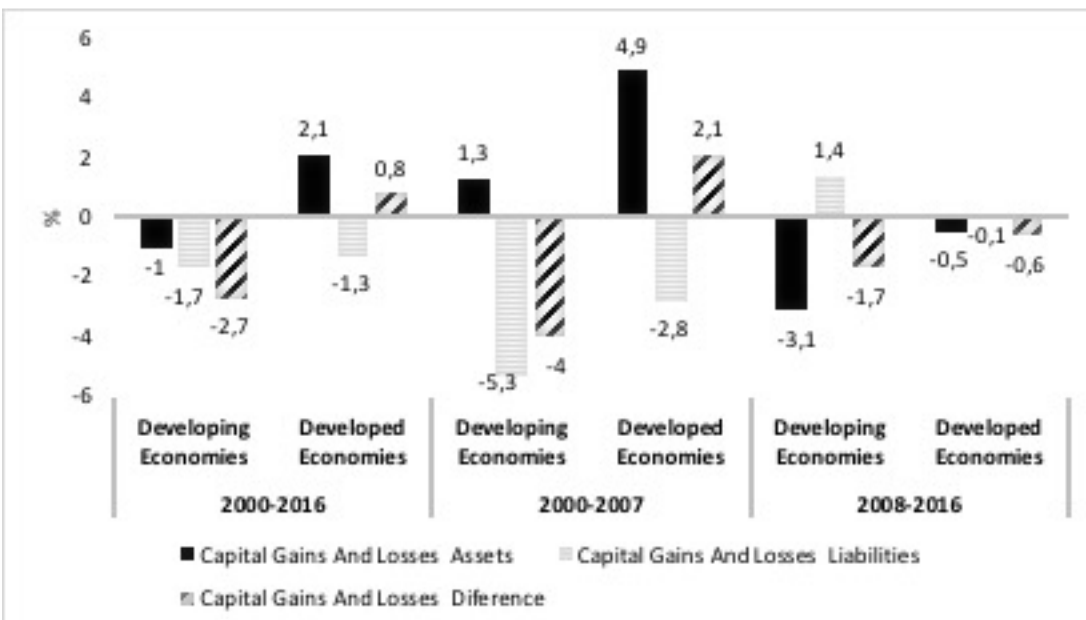
Source: Authors elaboration, based on Akyüz (2021).

[25] For details, see Lane and Milesi-Ferreti (2017).

Note: we have respected here the terms used by the author. Developing economies are Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Turkey. Developed economies are Germany, Japan, UK and USA.

As for the capital gains and losses, on the asset side they occur when there is, respectively, appreciation and depreciation of these assets; on the liability side, they correspond to, respectively, devaluation and valuation of these stocks. It is worth mentioning that both central and peripheral countries suffered capital losses on their liabilities between 2000 and 2016 (Figure 2). However, the capital gains of the central countries related to their assets, combined with the higher rate of return on foreign assets and the lower remuneration rate of their liabilities denoted an unequivocally favourable relationship to central economies. Hence, it is clear that the capital losses of the external liabilities of the peripheral economies, between 2000 and 2007, occur concomitantly with the exceptional capital gains in the external assets achieved by the central economies.

Figure 2. Capital Gains/Losses Rate of Gross Foreign Assets and Liabilities (%)



Source: Authors elaboration, based on Akyüz (2021).

Note: we have respected here the terms used by the author. Developing economies are Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Turkey. Developed economies are Germany, Japan, UK and USA.

One obvious reason for these differences in the returns by centre and peripheral countries concerns the interest rate differentials. Indeed, the higher returns on gross foreign assets of central economies can, to a large extent, be explained by the logic of the formation of profitability on peripheral assets, broadly shaped by the international interest rate added to a (political and market related) risk premium. When denominated in peripheral currencies, an exchange rate risk premium and a currency premium associated to the illiquidity of these currencies at the global level are also added (Andrade and Prates 2013; De Conti 2011; Ramos 2016).

Concerning capital losses experienced by peripheral economies, the analysis is more complex due to the inherently cyclical nature of global financial flows. Foreign asset prices and exchange rate shifts tend to be statistically correlated, either because they are both a function of movements in international financial flows and agents' expectations or because they tend to reinforce each other. Hence, in moments of euphoria of the world economy, assets from peripheral economies denominated in local peripheral currency may experience significant appreciation relative to assets in central currency due to both the rising assets' prices in local currency (e.g. assets related to agricultural and mineral commodities), but also – and very importantly – to the appreciation of the local currency in regard to the US dollar (which normally happens in moments of abundant capital inflows in peripheral countries). That results in capital gains for creditors in central economies who are simultaneously holders of assets denominated in peripheral currency and debtors in central currency. On the other hand, it generates capital losses for the holders of assets in central currencies.

However, the reversal of the condition of ample international liquidity and the revision in the valuation of assets by wealth holders implies a return to quality (assets and currencies of central countries), resulting in a devaluation of peripheral currencies and appreciation of central ones. As a result, there is a scenario of capital gains for peripheral economies holding assets denominated in central currencies, with a correspondent capital loss for holders of assets denominated in local currencies.

Nonetheless, what we observe is that cyclical reversals generate excessively pronounced capital outflows from peripheral countries – as discussed above – that are at the end more punitive than the eventual capital gains obtained. As a matter of fact, the main important capital gains are related to the international reserves, but very frequently a part of these reserves will have to be used precisely to curb the ongoing currency depreciation. Hence, this temporary capital gain is reflected in the accountability of the external assets, but does not result in higher incomes or positive effects for the national economic dynamism. In this sense, we disagree with Gourinchas *et al.* (2011) that this move is an 'exorbitant duty' accomplished by the US financial system to give stability to the IMFS.

The inferences above are clearer when considering total returns, that is, the sum of yields with capital gains/losses offered by gross foreign assets and liabilities in the period between 2000 and 2016. According to Akyüz (2021), between 2000 and 2016, the central economies earned a total rate of return related to their external assets which was more than twice that of peripheral countries (5.6 per cent *vs.* 2.1 per cent). The high participation of international reserves in the composition of gross foreign investments in the periphery (allied to their low returns) corresponds to a fundamental factor in explaining these figures. In the same period, the rate of return associated with peripheral economies' gross external liabilities was 7.4 per cent, against 4 per cent for central economies. As a result of these interaction, Akyüz (2021) estimates that peripheral economies transfer annually about 2.7 per cent of their GDPs to the central ones.

Therefore, even peripheral economies that have reached significant levels of industrial and technological maturity and may currently insert themselves in international trade in better terms, or that obtained favourable trade balances due to conjunctural increases in commodity prices, end up being functionally articulated with the central economies in such a way that part of the gains obtained in the technical-productive dimension are captured by the central economies in the monetary-financial dimension, through the *modus operandi* of the IDF.

Henceforth, we may argue that the current IDF is a structurally and historically established response within global capitalism which mitigates the losses observed in the dynamism and pace of accumulation of central countries in the technical-productive dimension arising from the effects of the intensification of global capitalist competition, the new form of international production configuration, the commercial gains (conjunctural and/or structural) observed by peripheral economies in the last decades, and the protagonist role conquered by the Chinese economy for the manufactory production.

Prebisch (1949) showed that cyclical movements in international trade contained a long-term trend of deterioration in the relative prices of primary products vis-à-vis manufactured goods, generating adverse consequences for peripheral countries. Indeed, the tendency to transfer wealth processed through the IDF also follows a fundamentally cyclical dynamic. There are short-term periods characterized by both net capital gains and losses for peripheral countries, but an analysis of a longer time horizon reveals a blatant trend unfavourable to peripheral economies. In light of this perception, we may suggest that peripheral countries integrated to the IMFS are subjected to a constant capture of wealth exerted by the central countries[26]. Along with the unevenness in the distribution of value-added in the Global Value Chains (GVC)[27], we may state that most peripheral countries suffer currently from a 'double-capture' of wealth.

Therefore, the peripheral condition is a relationship that denotes dependence and functionality of the economic peripheries concerning the centres that, far from being static, renew themselves and acquire new determinations and mediations throughout history. In the current configuration of the economic system, the IDF restates the peripheral condition in a way that, on the one hand, does not seem to operate without the technical-productive dimension; on the other hand, presents its own logic. Altogether, both dimensions converge in the deepening of the peripheral position of such countries in the world economy.

5. Final considerations

Every attempt to understand reality requires analytical breakings. These depend, of course, on the researchers' choices, but also on the historical context. Thus, Prebisch and the classic authors of ECLAC dedicated themselves to an attempt to understand the asymmetries involved in the international trade of their time and, ultimately, in the productive and technological structures of different countries around the globe. From this, they suggested the theoretical body that perceives the international economy as clearly divided between a developed centre and an underdeveloped periphery.

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[26] As stated by Aglietta and Bai (2012, p. 15), 'dominant financial centres are the privileged locus for the capture of value'.
[27] Cf. UNCTAD (2015).

In the context of financial globalization, authors aligned with the perception that the world is divided between a centre and a periphery found the need to contemplate this configuration of the global economy also from the monetary-financial sphere. Aiming at contributing to these discussions, this paper conceptualized the International Division of Finance (IDF), as well as its corresponding structural differentiation and structural tendency. Therefore, it explained that the IDF is founded on the hierarchy of currencies and corresponding assets (with their own structural properties) that, strictly speaking, distinguish the peripheries of economic centres in the scope of the monetary-financial dimension. We also argued that the IDF, far from being accidental or random, plays a fundamental role in the *modus operandi* of the reproduction of wealth in international financial circuits, with specificities which arise from each historical context, having reached a paroxysm in the current context of financialisation and financial globalization.

The structural differentiation that emerges from the IDF refers to a periphery that plays the role of supplier of assets and currencies that enable the recompositing of profitability rates and the valorisation of global portfolios, especially in periods of low-risk aversion and with ample international liquidity. The currencies and assets supplied by the central countries provide opportunities for maintaining and defending the value of the wealth stock and for recomposing the liquidity of the portfolios – especially in periods of reversal of expectations and deterioration of external financing conditions – as well as for the assumption of cheap liabilities that allow (or potentialize) investments in the periphery.

The IDF expresses one of the preeminent contemporary manifestations of the peripheral condition, embodied in the dependent way in which the finances of peripheral economies are articulated with the logic of accumulation processed in central economies. The fact that international financial flows destined for peripheral markets are determined by decisions and the prevailing economic dynamics in the centres reflects the partial or total externalization of the dynamic axis and the decision-making centre from peripheral countries. One of the obvious outcomes is the lack of autonomy for economic policy in these countries. Moreover, in spite of some changes – notably in what concerns the accumulation of very high international reserves –, peripheral countries are still subject to an extremely high vulnerability.

Finally, the article illustrates the structural trend that emerges from the IDF, that is, a tendency for a net structural transfer of financial wealth from peripheral economies to central economies. The analysis of data regarding the returns from gross stocks of external assets and liabilities in peripheral economies suggests the occurrence of a scathing net loss of wealth, not only because gross external liabilities have expanded more than gross external assets, but also because they tend to receive less for their external assets than they pay in yields for their external obligations. Furthermore, this transfer is further intensified by the systematic capital losses experienced by peripheral economies, both on the gross external asset side and liability side. Along with the unequal benefits arising from the IDL, this structural trend observed in the IDF allows us to argue that peripheral countries are subjected to a double-capture of wealth, through both the (interconnected) productive and the monetary-financial spheres.

Hence, having made the analytical breaks required by the investigative process, a theoretical articulation of this double dimension of the centre-periphery configuration is now necessary. After all, a country is inserted in the international capitalist system with its economy as a whole, and plays a role in that system that cannot be split into its various dimensions. As we argued in the article, the analytical division between the productive-technological and the monetary-financial aspects is quite useful for analytical purposes, but it cannot cloud the understanding that both constitute a unit. More than that, these distinct dimensions of the peripheral condition have feedback effects, deepening the subordination, the lack of autonomy for economic policy (and development strategies) and the economic vulnerability.

6. References

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