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Assessing financialization under international financial subordination: a mixed-methods study of Brazilian and Turkish non-financial corporations

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Abstract

This article investigates the changing financial behaviour of Brazilian and Turkish non-financial corporations (NFCs) in the context of international financial subordination. Recent empirical evidence shows that emerging capitalist economies' (ECEs) NFCs have increased their holdings of very short-term financial assets (mainly cash), whilst borrowing heavily from (international) financial markets and banks. Drawing on an extensive mixed-method study, we show that, instead of being paradoxical or driven by speculative carry trade operations, the 'wasteful' combination of holding very liquid and lower yielding assets while borrowing at higher costs (largely denominated in foreign currency) can be contextualized in the subordinate integration of ECEs firms into the global economy. Whereas cash holdings protect against macroeconomic uncertainty, ECEs firm borrowing is largely determined by international market conditions in the context of structural financing constraints. Moreover, our results show the dualistic and heterogeneous nature of ECEs firm financial behaviour, which mirrors the polarity observed in those economies' productive structure and structural balance of payments constraints: only firms with secure access to foreign exchange—either through exports or active internationalization—have the collateral to interact with global—dollar dominated—financial markets. Finally, our article points to the important, yet contradictory, role of the state in ECEs firm financial behaviour. In instances where foreign exchange generating activities in the private sector are not given, the state assumes a crucial role in enabling firms' engagement with global financial markets; yet it is that same engagement, which—in the context of international financial subordination—creates acute macroeconomic vulnerabilities which at times force the state to restrict those same operations.

Key words: financialization, international financial subordination, Brazil, Turkey

JEL classification: F36 Financial Aspects of Economic Integration; G30 Corporate Finance and Governance—General; L20 Firm Objectives, Organization and Behaviour—General

1. Introduction

A by now extensive literature discusses the increasing financial operations of non-financial corporations (NFCs) in advanced economies, including: the holding of financial assets; increased financial payments in the form of dividends, interest rates or shareholder buybacks; and, more arguably, the generation of financial income (Davis, 2016; Fiebiger, 2016; Rabinovich, 2019). So far, we know much less about the financial operations of NFCs in emerging capitalist economies (ECEs). Recent empirical evidence shows that firms from ECEs have also increased their holdings of short-term financial assets, though largely in the form of cash and cash equivalents (Bruno and Shin, 2017; Rabinovich and Pérez Artica, 2022). At the same time, the literature has pointed to the surging debt levels of several ECEs' NFCs both onshore in the domestic financial market, and offshore in international financial centres, and often in foreign currency (McCauley *et al.*, 2015; Avdjiev *et al.*, 2020). In principle, this behaviour seems paradoxical. Why should firms accrue large levels of debt if they hold the liquid resources to invest?

Existing corporate governance explanations of this concomitant increase in liquid assets and debt have largely focused on microeconomic motives—precautionary and investment—in the context of US and Western European firms. According to these approaches, firms are prone to accumulate cash and equivalents to meet future investment opportunities and/or debt repayments, especially when they are financially constrained and/or financing costs are expected to rise (Opler *et al.*, 1999; Almeida *et al.*, 2004; Acharya *et al.*, 2007; Denis and Sibilkov, 2010; Shin, 2014). Another explanation that has been put forward, particularly for large US firms with foreign subsidiaries and profits accruing outside their jurisdiction, is tax motives. In these cases, where firms want to avoid paying repatriation tax, issuing debt becomes an alternative way of paying back their shareholders (Pinkowitz *et al.*, 2015; Farre-Mensa *et al.*, 2021).

Whereas these explanations largely focus on US firms (or are indistinct to the geographical location of those firms), the most prominent hypothesis regarding recent ECEs firm behaviour—particularly by authors in or related to the Bank for International Settlements—is that of carry trade operations. Here, ECEs firms are seen to borrow cheaply on international financial markets (facilitated by recent quantitative easing policies (Shin, 2014)) and intermediate those funds into domestic (financial) markets to take advantage of profitable investment opportunities. These investment opportunities can come either in the form of liquid, high-yielding financial assets (Caballero *et al.*, 2016; Bruno and Shin, 2017), or as trade credit to domestic firms. In the latter case, NFCs effectively act as cross-border financial intermediaries (Shin and Zhao, 2013; Hardy and Saffie, 2019).

This article contributes to this debate with a detailed comparative, mixed-method case-study analysis and conceptualization of the changing financial relations and practices of NFCs in two key ECEs: Brazil and Turkey. These countries are two of the largest ECEs, with significant domestic financial markets and increasing levels of integration into the

global economy. Most importantly for the purpose of this article, Brazilian and Turkish corporates saw the fourth and second largest increase respectively in total NFCs debt of all ECEs between 2007 and 2014, with Chile and China completing the quartet (IMF, 2015). Yet, while there has been a significant amount of research on China (Sanderson and Forsythe, 2013; Maliszewski *et al.*, 2016), we know very little of the Brazilian and Turkish experiences. Moreover, whilst showing the same broad tendencies, the precise patterns of firms' financial behaviour in the two countries differed, highlighting the importance of institutional background (e.g. bank-based versus market-based finance), productive structure and state intervention in mediating the outcomes of broader structural processes.

In contrast to existing studies, which are largely based on quantitative estimations, we combine detailed aggregate and firm-level data analyses with extensive semi-structured interviews with company representatives and financial sector experts to provide a comprehensive mapping and explanation of the financial operations of Brazilian and Turkish NFCs between the late 1990s and late 2010s. This period was partly determined by data availability, partly by the consideration that it was in the early 2000s that liquidity returned to international financial markets following ECEs crises and firm indebtedness started to increase (see Section 3 for more detail).

The semi-structured interviews provide important insights into the motives, expectations and potential contradictions in firm decision making, which cannot be fully captured with secondary quantitative data. Conceptually, rather than focusing on the microeconomic motives of a representative firm, we provide a macro-structural account of firm behaviour in subordinate financialized capitalism which foregrounds the uneven and hierarchic structures of the global economy—both in trade and production—that fundamentally shapes firm decision making in those economies. It is important to note that these conceptual considerations are not purely theoretical but have important empirical implications for the structural risks of ECEs agents' integration into global financial markets. For example, rapid surges in foreign debt have historically led to deep currency and financial crises in ECEs (Arestis and Glickman, 2002) and socialization of private risks (Marois, 2012).

We show that rather than paradoxical, the 'wasteful' combination of holding very liquid and lower yielding assets while borrowing at higher costs (largely denominated in foreign currency), can be contextualized in the subordinate integration of ECEs firms into the global economy. Since the crises of 1999 and 2001, Brazilian and Turkish firms have been accumulating substantial amounts of low yielding cash, whilst increasing their borrowing in foreign currency. In contrast to what would be predicted by the carry trade hypothesis, our results show that—in the aggregate—rather than making financial profits Brazilian and Turkish firms have incurred substantial financial losses, as payments on their liabilities exceeded the returns on their financial assets. Cash holdings, rather than speculative, were largely aimed at protecting against macroeconomic volatility and global shocks. Thus, our results lend support to the precautionary motive of holding cash in the context of a subordinate macro-structural context. The dynamics of international borrowing, on the other hand, has been driven predominantly by conditions on international financial markets, as loose monetary conditions allowed—some—ECEs firms to access international financial markets.

By highlighting the distinct nature of firm behaviour in Brazil and Turkey, and its relation to the global structures of production and finance, our article contributes to the growing literature on subordinate financialization and international financial subordination (Powell, 2013; Kaltenbrunner and Paineira, 2018; Musthaq, 2021; Alami *et al.*, 2022;

Bonizzi *et al.*, 2022; Pataccini, 2022). These literatures analyse the particular ways the systemic and structural subordination of ECEs in the global economy condition the behaviour and autonomy of economic actors. More specifically, this article makes three contributions to these literatures. First, whereas the literature on subordinate financialization is relatively strong on conceptual macro-structural accounts and identifying the constraints on macroeconomic policy making, there is still little work on how international financial subordination shapes the day-to-day operations of private economic agents in those economies (Alami *et al.*, 2022). In particular, there is surprisingly little work which analyses firm behaviour from that perspective (exceptions are Andreoni *et al.*, 2023; Itaman and Wolf, 2022; Kaltenbrunner, 2017; Powell, 2013). More generally, there is a lack of systematic analysis of the liability side in corporate financialization (Klinge *et al.*, 2021). Our detailed empirical analysis of firms' balance sheets and behaviour in two key ECEs contributes to filling that gap.

Second, our results show the dualistic and heterogeneous nature of ECEs firm financial behaviour, which mirrors the polarity observed in those economies' productive structure. Latin American Structuralism has highlighted the dualistic nature of ECEs economies, which are characterized by an internationally competitive primary sector and a non-competitive secondary sector (Bielschowsky, 2009). Our results show that this dualism also translates in firms' differential ability to engage with (global) financial markets, in particular on the liability side of balance sheets. Previous research has highlighted that exporters tend to be more indebted in foreign currency than non-exporters (Bacchetta *et al.*, 2023, p. 13). It has also recognized that the ability to conduct financial operations is often limited to large firms belonging to sectors such as oil, utilities and telecom (Bruno and Shin, 2017, pp. 721–723). However, these findings have been typically interpreted from a sectoral perspective, that is, based on which sectors are capable to offer collateral for that debt. We argue that this sectoral distribution is a manifestation of structural conditions that underpin ECEs' subordinate integration into the world economy. Given ECEs' balance of payments constraint and subordinate integration into international money and product markets, only firms with secure access to foreign exchange—either through exports or active internationalization—have the collateral to interact with global—dollar dominated—financial markets. In Brazil, these are largely located in traditional comparative advantage sectors with relatively secure access to foreign exchange.

Third, our results confirm the crucial—yet at times contradictory—role of the state in mediating and shaping financial behaviour in ECEs (Marois, 2012; Alami, 2019; Güngen, 2019; Bedirhanoglu, 2020). Our findings show that where foreign exchange generating activities in the private sector are not given, as it is the case for many Turkish firms, the state assumes a crucial role in enabling firms' engagement with global financial markets. However, we also show the contradictory nature of these state interventions in the context of international financial subordination. Given its structural balance of payments constraint and dependence on transnational finance, the Turkish state initially facilitated the excessive (foreign exchange) borrowing of its large corporates, thus contributing to the emergence of macro-financial vulnerabilities. These same vulnerabilities, however, required the state to actively restrain that borrowing and/or operate through public banks during moments of crisis to maintain the confidence in the government.

Thus, on a more general level, our results confirm the observation in the literature that financialization both reflects and cements existing dualistic and dependent accumulation regimes in ECEs. Indeed, it is mainly national champions or large economically important

groups that can access (global) financial markets either through access to foreign exchange or state support. The risks of these processes of subordinate financialization, however, are borne by society as a whole, through either macroeconomic instability or the direct socialization of private losses.

We develop these arguments in five sections. Section 2 reviews the relevant literature and explains our contributions. Section 3 describes the methodology and data. Section 4 presents stylized facts of the asset and liability structures of Brazilian and Turkish firms using detailed secondary data analyses, whilst Section 5 draws on further quantitative data and semi-structured interviews to present a macro-structural account of firm behaviour in both countries. Section 6 focuses on the heterogeneous financialization patterns and the mediating role of the State for Brazilian and Turkish firms, while Section 7 concludes.

2. The financial practices of NFCs

The changing financial practices of NFCs in advanced economies have received considerable attention in the literature. These changes, often analysed under the umbrella of financialization, can be documented in the balance sheets and income flows of the firm (Davis, 2016; Klinge *et al.*, 2021; Krippner, 2005; Orhangazi, 2008; Rabinovich, 2019; see Rabinovich and Reddy, 2023 for a critical review of the literature). On the asset side, financialization is usually seen through the rise in financial assets relative to total assets. These financial assets mostly include cash and very liquid assets, financial investments, accounts receivables (trade credit) and other investments. On the liability side, the literature has observed a general increase in debt/equity ratios and a rise of securities issued on markets rather than bank credit. Finally, in terms of financial flows, authors have pointed to the rising payments to financial markets in the form of interest rates, dividends and share buy-backs and, more controversially, a rise in the income and profits generated from financial operations rather than underlying real operations (Fiebiger, 2016; Rabinovich, 2019). These financial operations, the literature shows, can affect the underlying operations of firms negatively either through offering more attractive investment opportunities, increasing payments to financial markets and/or changing the incentive structure of managers (Davis, 2016).

There is significantly less work on the financialization of NFCs in ECEs. Some studies point to the increased holding of financial assets also by ECEs firms (Demir, 2007, 2009; Araújo *et al.*, 2012; Levy-Orlik, 2012; Powell, 2013; Seo *et al.*, 2016; Demiröz and Erdem, 2019). In particular, there is evidence that ECEs NFCs have substantially increased their holding of cash and very liquid short-term financial assets (Kalinowski and Cho, 2009; Correa *et al.*, 2012; Powell, 2013). At the same time, academics and policy institutions have raised concerns about the rising debt levels of ECEs corporations, large parts of it denominated in foreign currency (Duarte, 2019; Avdjiev *et al.*, 2020).

In principle, the concurrent increase in relatively low yielding financial assets (cash) and debt seems paradoxical. Why should ECEs firms borrow heavily—often at the expense of substantial foreign exchange and international market risk—if they hold the liquid, monetary resources to invest? Two main explanations have been put forward in the context of ECEs. The traditional corporate governance literature has pointed to precautionary and investment reasons. According to these explanations, firms will typically hold cash to hedge against macroeconomic risks and uncertainty (Akkemik and Özen, 2014), especially when those firms face risky cash-flows and poor access to capital markets (Opler *et al.*, 1999;

Almeida *et al.*, 2004; Acharya *et al.*, 2007; Song and Lee, 2012). Firms will also hold more cash when facing promising investment opportunities, be that expanding their productive capacities via capital expenditures or buying existing firms through acquisitions.

Another explanation, made particularly prominent by authors related to the Bank for International Settlements, is that ECEs firms engage in speculative carry trade operations. In this explanation, ECEs firms are thought to borrow on international financial markets at lower interest rates to invest those funds in liquid and high yielding assets in the domestic economy (Shin and Zhao, 2013; Bruno and Shin, 2017; Acharya and Vij, 2020). Alternatively, they might also pass on this lending to other domestic companies in the form of (higher yielding) trade credit, making them effectively financial intermediaries (Hardy and Saffie, 2019). NFCs have a comparative advantage in bypassing capital controls compared to financial institutions mainly through intracompany loans (McCauley *et al.*, 2013; Avdjiev *et al.*, 2014).

The two explanations above, however, might be observationally very similar and hard to disentangle using only quantitative data. Different studies have found that higher spreads increase cash holdings when firms issue hard currency bonds, which is consistent with both speculative and precautionary motives (Chui *et al.*, 2014; Bruno and Shin, 2017; De Gregorio *et al.*, 2017). Moreover, those two explanations largely focus on the microeconomic motives of firms, rather than considering the macro-structural context ECE firms are operating in. Indeed, as highlighted by the literature on international financial subordination, ECE actors do not operate on a level playing field, but see their operations fundamentally shaped by, constrained, and at times enabled by the asymmetric structure of the international monetary, financial and productive system (Gabor, 2021; Alami *et al.*, 2022; Bonizzi *et al.*, 2022). For example, ECEs' international financial subordination might mean that agents from those economies find it difficult to issue debt in their own currency, have to offer higher yields to do so, or are subject to more acute selling pressures when international market conditions change. These tendencies are exacerbated by their relatively weaker and dualistic production structures, which make them more vulnerable to changes in international prices.

So far though, the literature on subordinate financialization has largely focused on macroeconomic phenomena such as financial volatility and external vulnerability, persistent interest rate differentials, reserve accumulation and constraints on macroeconomic policy making. As highlighted by Alami *et al.* (2022), we still know relatively little how these subordinate monetary, financial and indeed productive structures shape the distinct operations of different ECEs actors, both across different ECEs regions and countries, but also in their variation between them. Exceptions to this lacuna are Powell (2013), Kaltenbrunner (2017) and more recently Andreoni *et al.* (2023), who discuss the important role of monetary and financial subordination to explain carry trade operations, and the structural finance and balance sheet constraints of Mexican, Brazilian and South African firms, respectively. We build on this emerging literature to present a systematic, comparative analysis and theorization of ECEs firm behaviour in Brazil and Turkey. Yet, we innovate vis-à-vis those studies by following a mixed-methods methodology that combines different sources of quantitative data with interviews that allow us to make two analytical contributions to the literature on subordinate financialization.

First, we argue that one characteristic of subordinate financialization is its dualistic and heterogenous nature, shaped by ECEs' structural balance of payments constraint. We show that firms' ability to operate in (international) financial markets is fundamentally shaped by their ability to generate foreign exchange, in particular US dollar. This is especially obvious

in the case for Brazil where financialization phenomena are largely concentrated in national champions located in traditional comparative advantage sectors with access to foreign exchange. Thus, conceptually, our analysis complements studies of subordinate financialization with that of Latin American structuralism and dependency theory, which have highlighted the structural heterogeneity and dualistic nature of economic structure in the region (Prebisch, 1949; Marini, 1973; Bielschowsky, 2009). Peripheral countries tend to be competitive only in goods and services which are at the lower end of the technology ladder, those in natural resources or cheap labour (Reinert, 1995). While previous studies have looked at the relation between financialization and the economic structure, they have mostly focused on the expansion of finance (Déniz and Marshall, 2018; Bresser-Pereira *et al.*, 2020; Finello Corrêa and Feijo, 2022; Levy-Orlik, 2022). Our article not only studies closely the non-financial sector, but also continues a tradition that highlights how some specific local actors gain from the global power structure that subordinate financialization expresses (Bambirra, 1978; Reis and de Oliveira, 2021).

Second, we show the crucial, but also contradictory, role of ECEs states in enabling, mediating and shaping financialization patterns of NFCs in Brazil and Turkey. A growing literature has focused on the role of the state within the context of financialized capitalism (Marois, 2012; Alami, 2019; Güngen, 2019; Bedirhanoglu, 2020). Adopting a historical materialist approach, this body of research contends that the state is not a neutral entity, but one that serves the interests of the ruling class and manages societal conflicts in any given historical epoch. In relation to the current phase of capitalism, these studies have shown how forces emanating from the world market have helped to restructure the state in a manner subservient to the interests of finance capital. This restructuring has taken place in various ways including the reconfiguration of the regulatory and supervisory framework for financial activities (Lapavistas, 2013), the creation of sovereign debt markets (Painceira, 2021), the assetization of public properties (Adisson and Halbert, 2022), the formulation of new fiscal and monetary policy frameworks (Karwowski and Centurion-Vicencio, 2018) and the socialisation of private risks (Marois, 2012). A distinct feature of these studies is their conceptualization of the state as a social entity that is circumscribed not only by the contradictions emanating from the conflicting interests of different social classes (Poulantzas, 2000), but also from the global character of capital accumulation and the national form of the state (Clarke, 1988). These contradictions are particularly manifest in financially subordinate countries, where the structural dependence on transnational finance and continuous efforts to attract and ensure a steady flow of foreign capital create tensions between the legitimacy of policy makers to the needs of domestic/transnational capital and to poorer segments of society (Soederberg, 2004). As a result, inconsistent and controversial state interventions are the rule rather than the exception and—as we show in the context of Brazilian and Turkish firms—a distinct manifestation of subordinate financialization (see, for instance, Alami, 2019 for Brazil; and Apaydin and Çoban, 2022; Karas and Dönmez, 2023 for Turkey).

3. Methodology and data

We contribute methodologically to the literature on firm financialization, which has either used micro (Orhangazi, 2008; Demir, 2009; Hecht, 2014; Davis, 2016; Tori and Onaran, 2018; Auvray and Rabinovich, 2019) or macro (Stockhammer, 2004; Onaran *et al.*, 2011; Karwowski and Stockhammer, 2017; Kohler *et al.*, 2019) quantitative data. We take one

step further and investigate firm behaviour using an extensive mixed-method study, which combines detailed data analysis with semi-structured interviews in two case study countries, Brazil and Turkey. As discussed in the introduction, Brazil and Turkey are important case studies, because of their similar experience of firm indebtedness, yet boasting quite different institutional, productive and state characteristics.

For our quantitative analysis, we use all active and inactive, publicly listed firm-level data from NFCs incorporated in Brazil (1998–2018) and Turkey (1996–2018), excluding financial firms identified by the primary SIC codes from 6000 to 6799 and firms without sectoral information from Compustat Global. We make sure that all information is expressed in the same currency, converting it otherwise. We further filter the remaining list of firms checking that they belong to the correct sectors. This data are then aggregated nationally. We complement and reinforce our findings with aggregate data about NFCs' income structure. These data also include non-listed firms and thus cover a wider spectrum of firms. For Brazil, these come from the *Pesquisa Industrial Anual* (although it is limited to the primary and manufacturing sector); for Turkey, the data are provided by the Central Bank.

From these three sources of quantitative data, we take different sub-categories of financial assets and liabilities in local and foreign currency according to their availability. These include cash, short-term investments, deposits and trade receivables (trade credit to clients) on the asset side, and short-term and long-term loans and bonds on the liability side. We complement the data on the liability side with aggregate information from the Bank for International Settlements and firm-level data on bond issuance from Thomson Eikon. Finally, in terms of quantitative data, we evaluate financial profitability by different variables such as interest and foreign exchange income and expenses. The full description of all these variables is available in Supplementary Appendix B.

We complement this quantitative analysis with semi-structured interviews in Brazil, Turkey and the UK with representatives from NFCs, financial institutions and experts involved in offshore financing activities of ECEs companies. In total we conducted 25 interviews; nine in Brazil, 12 in Turkey and four in London (see Supplementary Appendix C for details). Whereas interviews in Brazil and Turkey focused on the determinants of observed balance sheet operations of firms, interviews in London were mainly targeted at gaining insights into the supply side of the financing, including conditions NFCs face on international financial markets. We mainly targeted listed firms (to complement our quantitative data) and purposively sampled firms across different sectors. London was chosen because of its key role as financial centre and location of offshore financing for ECEs NFCs. The interviews took place between 2012 and 2019 and were mostly conducted in person. All interviews were transcribed, translated and coded and subject to ethical approval.

4. The evolving asset and liability structure of Brazilian and Turkish firms

Figure 1 presents the financial asset structure in both countries. Panel A plots the evolution of 'cash and short-term investments' and 'receivables' of listed firms. We consider these two categories, as they are the only ones that clearly contain only financial assets. For instance, 'other assets' include both long-term financial investments but also long-term inventory. In the case of 'investments and advances' it comprises investments in other firms' equity but it is not possible to distinguish whether the purpose of that investment is related to the real

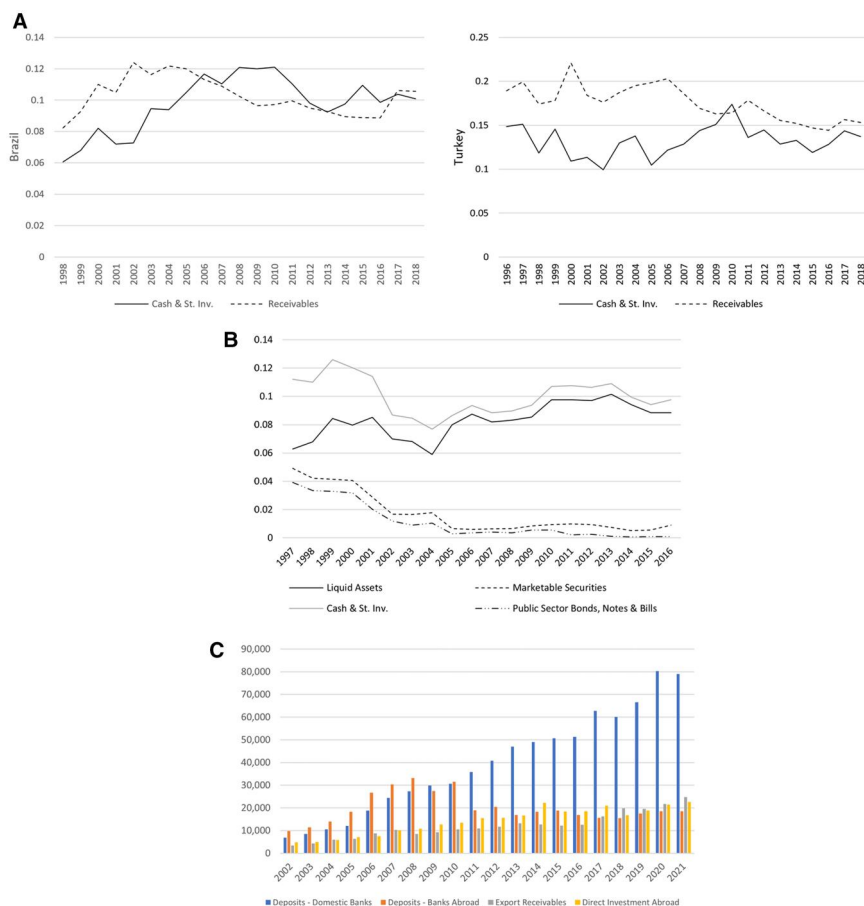


Figure 1 Financial assets. (A). Financial asset holdings of Brazilian and Turkish non-financial listed firms as percentage of total assets. *Source:* Compustat. (B) Liquid financial assets and marketable securities held by Turkish non-financial firms as percentage of total assets. *Source:* Turkish Central Bank. (C) Foreign-denominated assets holding by Turkish non-financial firms, million USD. *Source:* Turkish Central Bank.

operations of the firm or merely financial. For a discussion of these categories see [Davis \(2016, 2018\)](#), [Orhangazi \(2008\)](#) and [Rabinovich \(2019\)](#), among others.

In the case of Brazil, two phases can be identified: first, a positive trend of cash and short-term investments until the global financial crisis, followed by stagnation or even a decline after that. Despite the more recent decline, cash and short-term investments remained at around 10% of total assets, higher than the 6% at which it started. In the case of Turkey, the data show more fluctuations, switching from declining periods (1996–2002) to increasing (2002–2010) and back to decreasing (2010–2018). On average, however, the trend for Turkish firms is stable around 13%. For both countries, receivables have been decreasing.

While Compustat does not allow to further distinguish between cash and short-term investments, nor the currency in which those assets are held, the Turkish Central Bank disaggregates them. Here we observe a shift from marketable securities (mainly interest-bearing government bonds) to more liquid alternatives, mostly bank deposits, at the time of the 2001 financial crisis (Panel B). Additionally, Panel C illustrates the increasing prominence of domestic deposits in foreign currency held by NFCs in the total structure of foreign-denominated asset holdings.

Figure 2 focuses on the liability side of NFC' balance sheets, in particular debt dynamics. In line with the results of previous studies (Bastos *et al.*, 2015; IMF, 2015; McCauley *et al.*, 2015), our data show that in both countries long-term debt has nearly doubled as a proportion of total assets, although at a higher level in Brazil (Panel A). Compustat does not provide data on currency denomination, but Panel A shows that in both countries long-term debt increases after currency depreciation, evidencing the potentially high share of foreign currency debt. Using other sources of data confirm this trend. Data from the Central Bank of Turkey in Panel B, and the Brazilian Centro de Estudos do Mercado de Capitais in Panel C show how foreign-denominated liabilities accelerated sharply after the global financial crisis. That said, local currency debt remains an important source of firm financing in both countries. Panel C in Brazil shows in fact a faster increase of Real-denominated bonds until 2014. Table 1 for Turkey also indicates a majority of locally denominated debt in the overall liability structure up to the global financial crisis and its aftermath.

The second dimension of firms' liabilities highlighted in the financialization literature is the distinction between bank and market-based finance. While in both countries bank credit remains the most important source of firm financing, bond issuance has expanded significantly in Brazil since 2004 (Supplementary Figure A1). This is in contrast to Turkey, where bonds represent less than 1% of total liabilities. For historical reasons, Turkish firms still rely almost exclusively on the banking sector when looking for external sources of funding (Güngen, 2019). In this country, when opportunities of making profit from financing the public deficit declined in the post-2001 crisis, banks increasingly turned to the private sector, including both NFCs and households (Karaçimen, 2014). Importantly, as can be seen in Table 1, a substantial share of this bank lending has also been in foreign currency. This channel was legally closed for Brazilian firms until the end of 2022 when a new Brazilian law came into force that removes several barriers on operations in foreign currency. Without bank lending in foreign currency, Brazilian firms have turned to offshore bond markets for their foreign leveraging (Panel C), often through the opening of offshore financial subsidiaries to gain access to cheaper foreign currency financing (McCauley *et al.*, 2013).

The final dimension of Brazilian and Turkish firms' liability structure worth highlighting is the crucial role of public banks. Figure 2, Panel C shows an increase in directed loans by the Brazilian national development bank (BNDES) after the global financial crisis until the implementation of fiscal austerity in 2016. In the case of Turkey, Table 1 shows that the increase in foreign currency borrowing has been mostly through public banks after the financial crises (with an interruption in 2019 and 2020 as will be discussed below).

In sum, the above section has shown that Brazilian and Turkish firms have accumulated large cash holdings, whilst at the same time borrowing heavily both in local (mostly before the global financial crisis) and foreign (increasingly after quantitative easing policies in the

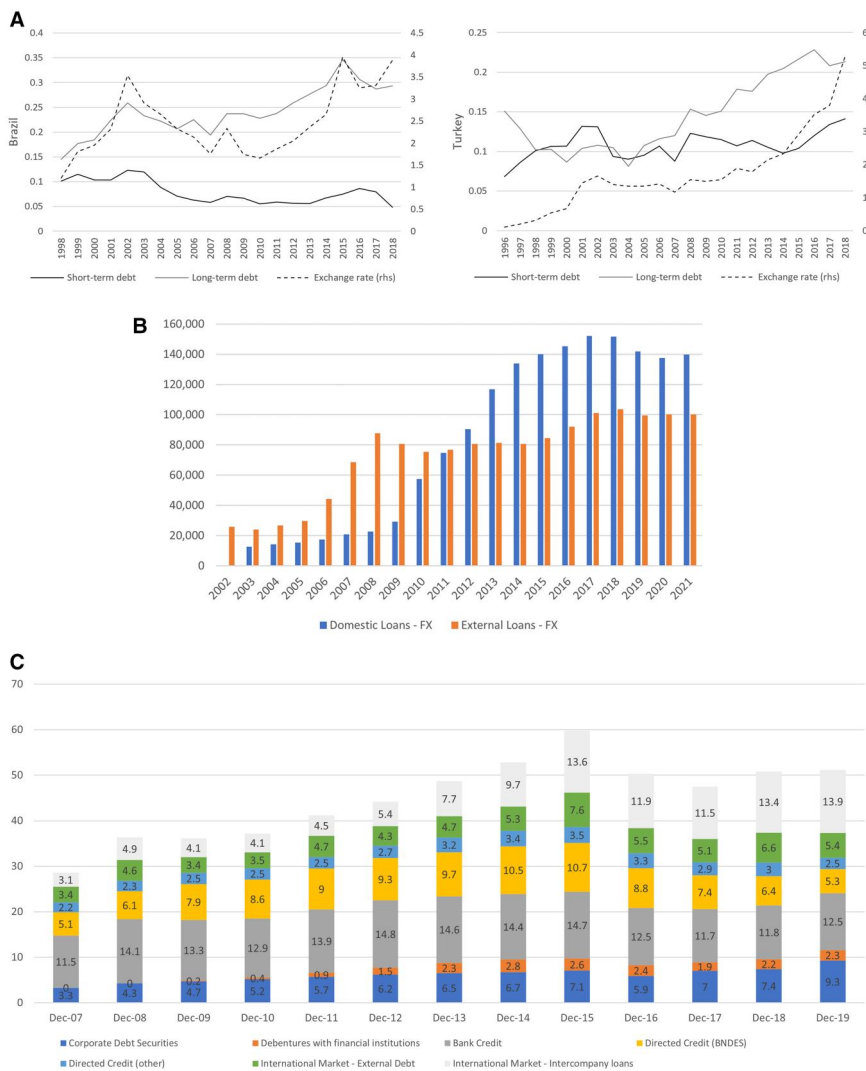


Figure 2 Financial liabilities. (A) Exchange rate and long-term and short-term debt of Brazilian and Turkish non-financial listed firms as percentage of total assets. *Source:* Compustat and Bank of International Settlements. (B) Foreign-denominated loans held by Turkish non-financial firms, million USD. *Source:* Turkish Central Bank. (C) Financial liabilities of Brazilian NFCs. *Source:* Centro de Estudos do Mercado de Capitais.

USA and Europe) currency. In Brazil, foreign currency borrowing has taken place largely offshore, whereas in Turkey local banks have provided foreign currency lending onshore. In both countries, public banks have continued to play a crucial role for firm financing, in particular during and after of the global financial crisis as a countercyclical measure.

Table 1 Composition of Bank Loans to NFCs (except small and medium enterprises), Turkey

	2004	2009	2018	2019	2020	2021
Public (%)	57.3	61.1	73.4	71.2	70.1	73.9
Public Turkish Lira (%)	74.5	63.6	36.2	40.4	42.6	35.2
Public foreign currency (%)	25.5	36.4	63.8	59.6	57.4	64.8
Private (%)	42.7	38.9	26.6	28.8	29.9	26.1
Private Turkish Lira (%)	57.4	54.7	63.9	62.6	58.2	65.5
Private foreign currency (%)	42.6	45.3	36.1	37.4	41.8	34.5

Source: Turkish Central Bank.

Percentages in bold represent public and private proportions of total bank loans to NFCs.

As discussed in Section 2, there are different explanations of why firms would increase their borrowing, despite holding a substantial amount of liquid financial resources. The predominant hypothesis in the context of ECEs is that of speculative carry trade operations, where firms borrow cheaply in foreign currency to invest in higher yielding local currency assets. The next section further investigates this hypothesis about ECEs firm behaviour digging deeper into firms' balance sheets and triangulating them with semi-structured interviews.

5. A macro-structural account of firms' financial operations in Brazil and Turkey

An important piece of information to assess whether liquid assets have been held for speculative purposes is the nature of these assets. In Figure 1, Panel B, we showed a shift from marketable securities to more liquid, cash-like alternatives in Turkey, which casts doubts on the speculative nature of those holdings (disaggregated data on the nature of short-term assets were not available for Brazil). Another indicator is the relative returns and expenses on NFCs' assets and liabilities. Figure 3 shows that there are remarkable similarities in both countries. Interest and related expenses are higher than interest income practically in all years. This indicates that, rather than making profits as implied by the carry trade hypotheses, Brazilian and Turkish firms—on the aggregate—made losses on their financial operations. The difference is higher for Brazilian firms whose financial profitability is negative for their entire period under investigation. Using data from Economatca, Attilio and Cavalcante (2019) find the same patterns (although different levels) for Brazil. This negative profitability is also the case for non-operating income (net of interest income), which is a net category and comprises income and expenses from secondary activities such as foreign exchange income and losses. Here, Turkey also presents a better performance with various years of positive values—in particular the late-1990s and 2002–2007 period—whereas for Brazil the indicator is always negative. It is worth mentioning that both the negative interest rate profitability and the common income and expense trends have also been found for US non-financial firms indicating more passive behaviour than an active search for financial profitability (Fiebiger, 2016; Rabinovich, 2019). The same is found here for Turkey and Brazil as shown in Supplementary Figure A2.

These results are also confirmed by aggregate data shown in the Supplementary Appendix (Supplementary Figures A3 and A4). For Brazil, the evolution of financial income of all Brazilian firms largely replicates interest income from Figure 3. Equally, whilst Brazilian firms made profits on their non-financial operations, they recorded negative

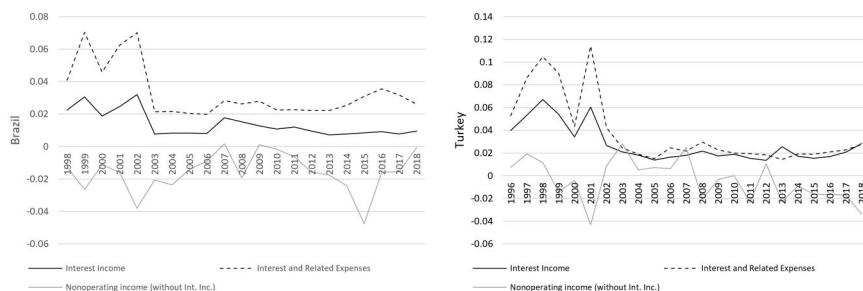


Figure 3 Interest income and expenses, non-operating income calculated as proportion of total revenues, Brazilian and Turkish listed non-financial firms. *Source:* Compustat.

financial and non-operating profitability in almost all years. The Turkish Central Bank provides similar aggregate information, but with foreign exchange income and losses as separate items (Supplementary Figure A4). While the growth in foreign exchange income accelerated in 2012 with the depreciation of the Turkish Lira (Figure 2, Panel A), it was surpassed by foreign exchange losses after 2010 (except 2012 and 2014). This pattern applied to both the average and bigger firms (Supplementary Figure A5).

For Turkey, our findings contrast with what has been found for the 1990s (Demir, 2007, 2009). During that time, in the context of volatile growth and high interest-rate conditions, Turkish NFCs made a strategic decision to compensate for the potential losses from investing in real assets by investing in high-yielding government bonds. As stated in Boratav *et al.* (2000), during the 1994 crisis, Turkish car manufacturers suspended production for a few months and invested their working capital into high-yielding government debt instruments and made financial profits. One of our interviewees also stated that ‘a friend of mine who had been working with textiles back then, stopped the work in the company, burying all the funds in government bonds all season. No production. No activity. Think about it. You totally get government bonds. While the profit margin is 30% in textile, by this way he could earn 50-60 more’ (Interviewee 8). The opportunities of making profit from investing in government bonds declined in the post-2001 crisis era as a result of the IMF-led public austerity policies, which led to a decline in public debt.

From this preliminary analysis we see that although Brazilian and Turkish firms have increased their exposure to financial markets, both on the asset and the liability side, in the aggregate they have not made profits on these operations, which speaks against the carry trade hypotheses. This result is also confirmed by the qualitative analysis. Very few interview partners thought that their firm and/or other firms engaged proactively in such carry trade operations. Indeed, most of them argued that they tried to hedge their foreign currency exposure as much as possible, either through derivatives or exports as a form of natural hedge. As one interviewee from a Turkish firm argued (Interviewee 12):

High financial income is not a good sign for valuation of listed firms in the stock exchange market. It creates the perception that a firm does not focus on its main job. It is evaluated negatively.

Another Turkish interviewee thought that even if Turkish NFCs would have wanted to hold higher-yielding government debt, the companies were crowded out by foreign

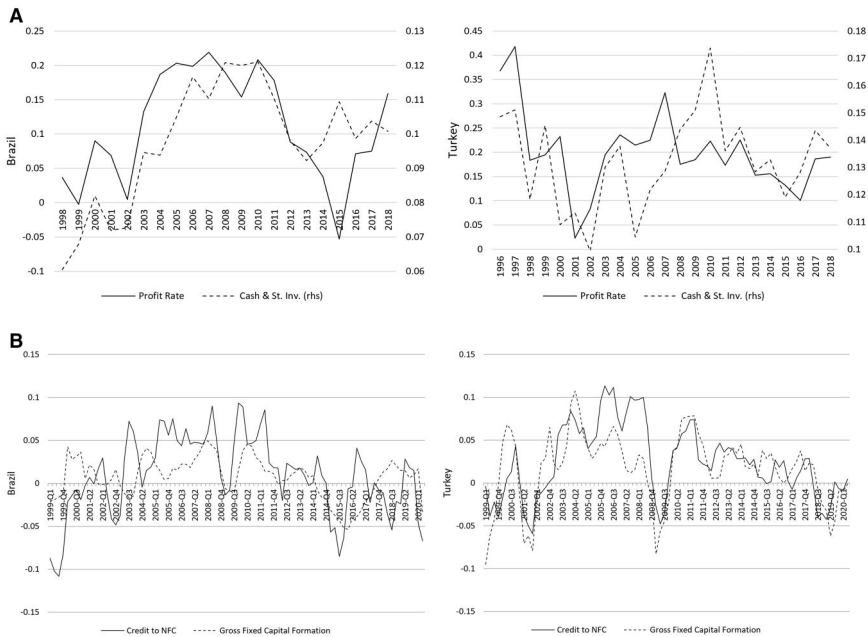


Figure 4 Profitability, cash holdings, credit and capital formation by non-financial firms. (A) Operating income and cash and short-term investments of Brazilian and Turkish non-financial listed firms as percentage of total assets. *Source:* Compustat. (B) Credit to non-financial firms and Gross Capital Formation. *Source:* Bank of International Settlements and OECD.

investors who bought them on bulk and only sold them if the country risk rose to unbearable levels (Interviewee 5). Instead, firms argued that cash holdings, accumulated from previous profits, were important as protection against changing macroeconomic and international market conditions. Panel A from Figure 4 shows how both in Brazil and Turkey the profit rate and cash and short-term investments moved very closely together—in particular before the global financial crisis (see also Özmen *et al.*, 2012 for Turkey). In the case of Brazil, high commodity prices and buoyant demand before the global financial crisis meant that the economy was booming and that firms were faced with a sudden gush of cash. Firms reinvested part of those earnings or used it to buy imported commodities (Interviewee 2). However, large parts of the profits were held as a cushion to protect against changes in the economic environment. As one Brazilian interviewee observed (Interviewee 24):

What I feel is that even in terms of investments, companies are very scared, like that. They simply put a very conservative model, especially multinationals... They're scared of what's going to happen, so they ... just base themselves on the most conservative policy. The leftover cash will then be out there, even with the low interest they pay abroad, the security is greater.

The global financial crisis strengthened the incentives for companies to hold onto their large liquid cash holdings. Quoting again from one of our interviews with a large Brazilian company (Interviewee 18, translated from Portuguese):

our cash register is gigantic ... So, we still maintained the policy of keeping the cash flow. It is the policy of large American companies ... The difference is that cash costs a lot here, right ... But in terms of security for the market, it's been worth it. The scare of 2008 was very big ... (So this big cash liquidity is because of the crisis?) Yes, it started there. But we try to maintain, as we say, whether we wanted it or not, the market associates this as a ... how shall we say? ... the company having a large cash mattress is a good sign ... (Security?) Security, exactly. We've been keeping it because of that too. The crisis only increased ...

However, as the quote also shows, firms didn't only hold cash to protect themselves against changing economic conditions, but also to secure continued—and indeed more favourable—access to international funding markets. This was confirmed by another large Brazilian firm (Interviewee 19):

... If you talk to our largest shareholder here which is a fund, a hedge fund in Brazil, a private equity fund actually, he's going to say that if you're an interested investor and you look at y (company name) you should be looking at our cash flow generation because cash flow is the first KPI that shows if the strategy is being successful

Reflecting the same rationale for the large cash holdings, in 2009, when evaluating Efes International Brewery listed on the London Stock Exchange, [Reuters \(2009\)](#) reported that the refinancing risk of the highly leveraged company was mitigated by the large cash balances held by the company.

Besides these precautionary purposes and accumulation of collateral to be able to access international financial markets, our interviews also showed that some—large—firms accumulate cash holdings to take advantage of profitable acquisition opportunities, in particular abroad. For example, in Turkey, Anadolu Efes, ranked 11th on the international beer market, used approximately US\$187 million of its cash reserves to conduct one of the greatest M&A transactions (US\$1.9 billion) performed by a Turkish company abroad ([Anadolu Efes, 2010](#)). Similarly, other leading Turkish firms like Arcelik ([Ayden et al., 2018](#)) and Koc Holding ([Finans Gündem, 2016](#)) took advantage of their cash-rich position to expand through acquisitions.

Internationalization is key for ECEs firms to diversify risks and revenue streams, generate foreign currency and access international funding markets. As highlighted in the literature (e.g. [Coe and Yeung, 2015](#)), it is also increasingly demanded by international investors. For example, as one large Brazilian firm noted (Interviewee 19):

... So if you have sort of this international, global footprint you're able to sort of mitigate these risks, and that's kind of where we are right now, we have a lot of presence in the Middle East, we have a lot of presence in Japan, a smaller presence in what we call South America, and then Africa and Europe and a much smaller presence in Russia.

If firms have been profitable and accumulated cash reserves, this makes it even more surprising that they have indebted themselves at the same time. This, our interview results indicate, can be at least partly explained by the favourable international market conditions and strong international liquidity at that time. Structurally finance constrained firms in both countries borrowed because they could. External markets offered both longer terms, and lower interest rates than local financial markets. As one representative from a large Brazilian firm noted (Interviewee 17):

So, there wasn't a market for long term funding for many many years, long here was like 2 years, 3 years, 5 years, whatever, right. So that has evolved significantly, the capital markets with the improvement of Brazil and risk perception pertaining to it, and all companies that recently had access to the decision to go to market. I recall one day a shareholder asked me he said "look, when do you think we should go to the market?" and I said "well, we should always go to the market when there's a market. Because when there's a good market there's a good deal.

Interviewee 7 reported that Koc Holding, the leading corporation in Turkey with many subsidiaries in different sectors, used every opportunity to borrow in the beginning of 2019 thinking that the market liquidity would diminish in the long term.

The destinations of the borrowed funds varied over the period. Before the global financial crisis, firms increased their indebtedness mainly to support their capital expenditures given high growth rates and profitable investment opportunities (see the discussion above and [Finello Corrêa *et al.*, 2017](#); [Özmen *et al.*, 2012](#)). Gross fixed capital formation and credit to the NFC largely co-moved as it can be seen in [Figure 4B](#). After the global financial crisis, firms tended to take advantage of the particularly favourable condition in the context of QE policies. Between 2015 and 2019, Brazilian companies and subsidiaries issued US\$82.7 billion in the international market, at an average coupon of 6.6% p.a. and an average term of approximately 10 years. In that period, the average rate from the BNDES was around 10% ([Centro de Estudos de Mercados de Capitais, 2020](#)). The main destination of these funds was the refinancing and extension of debt: 84.3%, 83.8% and 85.6% in 2017, 2018 and 2019, respectively ([Banco Central do Brasil, 2020](#), box 7).

Finally, we have also analysed other potential uses of funds that characterize corporate financialization in advanced economies such as buybacks and acquisitions ([Klinge *et al.*, 2021](#)). The former is nil in both countries for almost all years, whereas the latter averages 1% of total assets in both countries.

In sum, above section showed that rather than speculative carry trade operations, the financial behaviour of Brazilian and Turkish firms over recent years was shaped by precautionary and opportunistic behaviour within hierarchic international monetary structures. Despite large cash holdings—accumulated during profitable years before the global financial crisis—firms borrowed heavily on international financial markets—largely in foreign currency—because they were able to access those markets and do so more cheaply. At the same time, they held onto low yielding and 'unproductive' cash reserves (in the Turkish case often in the form of US dollar denominated bank deposits) to protect themselves against changing international economic and funding conditions—or indeed—as a collateral to be able to access cheaper international funding markets. Some firms also used the cash to strategically internationalize. The next section, taking a more sectoral perspective, shows how these financial operations were limited to firms in specific sectors, which we argue is a further reflection of ECEs' subordinate nature.

6. Heterogeneous and dualistic financial behaviour: comparative advantages and the role of the State

The first additional finding in terms of the heterogeneity of firm financial behaviour comes from the recognition that in both countries borrowing in foreign currency has been dominated by a handful of large firms, concentrated in certain sectors. With regards to the size of the companies, [Table 2](#) indicates for Brazil that, although the value of issuance in local

Table 2 Bond issuance by Brazilian and Turkish NFC, 2000–2020

	Brazil				Turkey			
	Value (US\$ bn.)		Number of issuers		Value (US\$ bn.)		Number of issuers	
	Foreign Currency	Local Currency	Foreign Currency	Local Currency	Foreign Currency	Local Currency	Foreign Currency	Local Currency
2000	1747.99	2793.24	5	11	217.58	0.00	2	0
2001	2511.43	2269.98	4	14	100.00	0.00	1	0
2002	1196.82	2140.80	4	13	298.67	0.00	2	0
2003	8213.95	916.20	12	10	0.00	0.00	0	0
2004	3118.23	1905.16	9	14	174.15	0.00	1	0
2005	3874.49	1087.32	7	13	723.27	0.00	2	0
2006	7997.40	8113.60	10	18	400.00	0.00	1	0
2007	5816.33	5164.88	9	12	100.00	0.00	1	0
2008	3975.83	17922.43	7	27	1.50	0.00	1	0
2009	18 978.27	9002.88	14	22	0.00	0.00	0	0
2010	14 375.07	15 059.48	14	34	0.00	0.00	0	0
2011	22 930.40	14 680.51	12	46	40.12	0.00	1	0
2012	24 331.22	22 327.29	13	69	1192.34	0.00	2	0
2013	18 996.65	13 422.51	10	64	2287.05	106.24	4	2
2014	21 818.00	14 272.30	11	78	947.98	0.00	3	0
2015	5474.58	6803.06	8	48	328.27	0.00	1	0
2016	16 918.89	9499.47	7	40	743.51	0.00	1	0
2017	21 995.77	14 751.29	16	57	2300.00	141.85	2	1
2018	9684.42	19 214.11	11	84	500.00	170.10	1	1
2019	18 986.54	11 927.18	12	57	1895.34	0.00	1	0
2020	15 777.34	6951.43	15	42	50.00	0.00	1	0

Source: Thomson Eikon.

currency has in many years surpassed that in foreign currency, the number of issuers was far smaller in the case of foreign currency debt. Size was important to diversify and hedge income streams, but also to develop the financial and regulatory expertise to access international financial markets (Maggiore *et al.*, 2019). As a Turkish financial advisor explained (Interviewee 7):

In February 2019 expecting a decline in liquidity in the market Koc Holding collected euro-bonds, private bonds, loans whatever it could find in the market. It is a big firm.

Moreover, Interviewee 23 noted that international investors preferred companies with a significant credit history, which also benefits larger and more traditional firms. As a result, foreign currency bond issuance was concentrated in only 60 firms in Brazil, and 12 in Turkey.

The fact that bigger firms are in a better position to issue debt in international markets is valid both for advanced economies and ECEs. The similarities, however, end there. The biggest firms from advanced economies tend to be at the technological frontier in the most complex industries. The pattern that we observe in Brazil and Turkey, on the other hand

Table 3 Number of Brazilian and Turkish firms issuing fx-denominated bonds per sector, 2000–2020

Sector	Brazil	Turkey
Construction	3	1
Consumer products and services	2	2
Consumer staples	11	4
Energy and power	14	1
Healthcare & high tech	3	1
Machinery & equipment	4	0
Materials	15	1
Retail	1	0
Telecommunications	3	0
Transportation	4	2

Source: Thomson Eikon.

(illustrated in Table 3), is that firms belong to two types of sectors: either the primary, commodity-related one (mostly relevant for Brazil) or the state-supported one (more relevant for Turkey). In both cases, foreign currency bond issuance has been dominated by energy and power, materials, construction and consumer staples—all sectors with low capacities for generating and transmitting technical progress and, consequently, for boosting the economy's productivity (Ocampo, 2014). On the other hand, healthcare and high technology show an almost negligible number of firms issuing bonds in foreign currency.

The greatest part of total issuances has also been dominated by firms belonging to these sectors. In Brazil, it has been Petrobras (36.05%, energy and petroleum), Vale (8.86%, materials) and JBS (6.52%, consumer staples). This sectoral distribution is replicated more generally when looking at borrowed funds from overseas: Figure 5A indicates the massive increase in 'Coke, petroleum derivatives and biofuels' in Brazil. Total borrowed funds from overseas are even more relevant for Turkey given its low reliance on bond issuance. Figure 5B shows that apart from the manufacturing sector, transportation, energy (electricity, gas, steam), construction and telecommunication, respectively, are among the top 5 sectors that borrowed from abroad between 2002 and 2020. While the share of manufacturing in total loans received from abroad declined remarkably (from 40% in 2005 to 25% in 2020), the shares of construction and transportation increased substantially (from 6% to 21% and from 5% to 15% respectively).

Given ECEs' structural balance of payments constraint (relatively) secure access to foreign exchange remains a key factor for firms to integrate into global financial markets. As a representative from a large natural resource conglomerate noted (Interviewee 17):

... But the fact is that given our debt profile and our cash generation year in year out, and per period of time, whatever you say, to quarter, whatever, we're always long dollar, or neutral, we're never short. Even considering our liability. So, we're able to make use of dollar-denominated even one euro-denominated bond that we could actually match with cash flow generation....

The sectoral difference that we observe in foreign funds received has a counterpart in the seemingly paradoxical positive co-movement of liquid financial assets and debt. In Brazil,

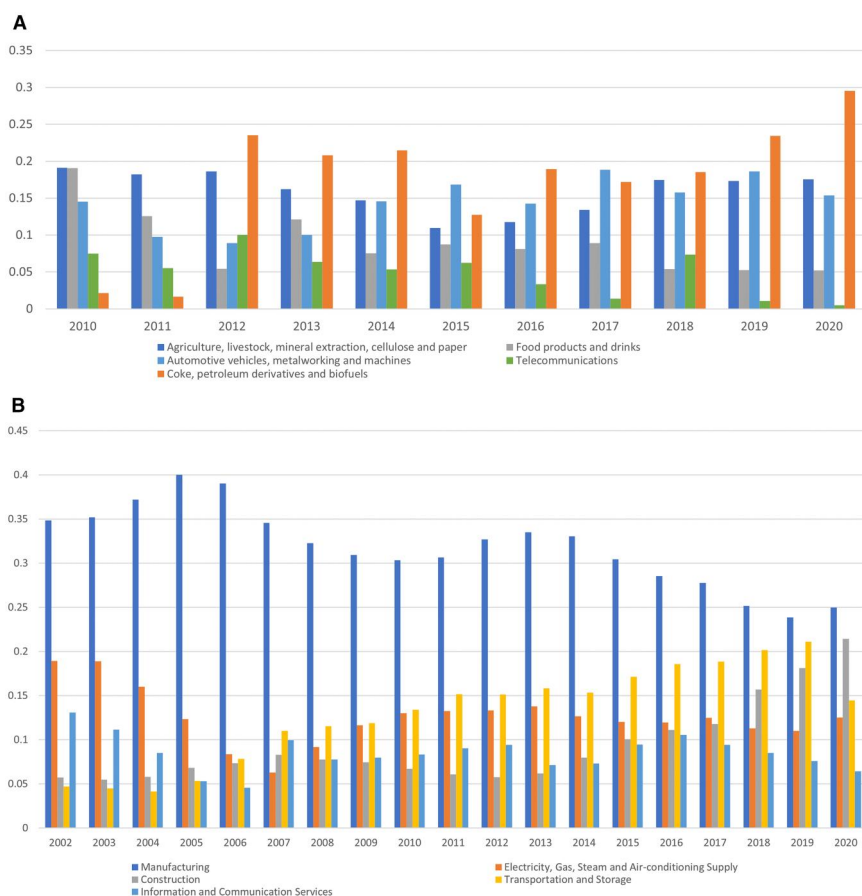


Figure 5 Share of top five non-financial sectors and the financial sector as percentage of total long-term loans received from abroad by the non-financial sector. (A) Intercompany and long-term loans. *Source:* Brazilian Central Bank. (B) Long-term loans. *Source:* Turkish Central Bank.

this type of behaviour is verified in construction, consumer staples, energy and power and materials (Supplementary Figure A6). In Turkey, the pattern appears in mining, manufacturing and construction (Supplementary Figure A7). Still, these results have to be interpreted cautiously. In the case of Brazil, we only have firm level information so it may not be representative of the whole sector. In the case of Turkey, classifications were modified throughout the period.

The last point of the distinctive character of (subordinate) firm financialization is the crucial—yet contradictory—role played by the state in shaping and mediating NFCs' financial behaviour in both countries, but in particular in Turkey. The restructuring of the state through regulatory reforms and changes in fiscal and monetary policies allowed NFCs in both countries to increase their FX denominated debt when global liquidity conditions improved. One key mechanism to encourage such lending, in particular in Turkey, were de-risking strategies in the form of public-private partnerships (PPPs). Our results show that

while the share of manufacturing in the loans borrowed from abroad decreased over the last 20 years, the shares of construction and transportation increased in Turkey. This is mainly because external funds were made accessible to these sectors via PPPs, thereby creating capital accumulation opportunities in areas previously dominated by state monopolies (Ayhan and Üstüner, 2023). As one of our interviewees in Turkey reported (Interviewee 7):

The lender, who gives credit abroad, must be convinced of which sector can pay back the long-term loan, I'm talking about the majority in Turkey ... mostly companies with government guarantees can find long-term borrowing. These are PPPs.

According to data from the World Bank, Turkey and Brazil are among the top five countries with the highest amount of investment via PPPs. In both countries, government support (e.g. transfer of public resources via Program to Accelerate Growth I-II (PAC) in Brazil and public tenders in Turkey) especially for construction, energy transport and mining sectors increased in the wake of the global financial crisis (Ebenau and Liberatore, 2013; Orhangazi and Yeldan, 2021).

As shown in Section 4, in both countries the state also supported firms directly through public and development banks. In Brazil, the rise in BNDES financing was due to the increasing unwillingness of private banks to engage in lending and the government's attempt to use BNDES lending as a counter-cyclical policy during the global financial crisis (Torres Filho, 2018). While the BNDES supported firms of different sizes, most of the funding was concentrated in large firms (BNDES, 2015) and those located in traditional comparative advantage sectors (Zalaf Caseiro and Masiero, 2014; Ricz and Schedelik, 2023). Since 2005, the BNDES played a key role in providing funds to support the internationalization efforts of Brazilian firms through greenfield operations or mergers and acquisitions. For instance, more than 60% of total funds went into this category in 2015 (BNDES, 2015).

The result of BNDES engagement was quite impressive: 85.7% of Brazilian multinational firms operating in Europe received support from the BNDES, either in the form of loans or equity participation (Masiero *et al.*, 2014). Besides the BNDES, the Brazilian State provided diplomatic support for the internationalization of big firms (Riciz and Schedelik, 2023). However, active BNDES financing came to an end in 2016 with the imposition of strict austerity policies under the government of Temer (Torres Filho, 2018). A direct consequence of that was not only the increased issuance of both domestic and international securities (evidenced in Figure 2E), but also a deleveraging process with the BNDES and national banks (Comissão de Valores Mobiliários, 2019).

In Turkey, regulations introduced in 2009 directly allowed foreign currency borrowing by NFCs which did not have foreign-denominated earnings. Additionally, the so-called reserve option mechanism designed and implemented by the Central Bank in 2011 allowed banks to hold a certain part of their required reserve in foreign currency and also use that foreign currency for domestic credit expansion (Boratav and Orhangazi, 2022). After that point, Turkish NFCs did not borrow much directly from banks abroad; but rather from Turkish public banks (Table 1). The fact that the bank-based financial system is more prominent in Turkey shows the importance of institutional specificities in the way favourable international conditions were exploited (Bakir, 2021). These macroeconomic and regulatory policies also reflect how the state takes a more prominent role in a subordinate financialized economy to contemplate and accommodate the interests of, not only various fractions of society, but also transnational capital. Faced with

significant economic pressure due to the build-up of excessive external debt, sudden capital outflow and the large depreciation of the Turkish Lira, the government introduced a limit on NFC borrowing in foreign currency in 2018. This was accompanied by other capital control measures, including limits on currency swap operations involving the Turkish lira, a gradual tax increase on the purchase of foreign currency and increasing import tariffs on a wide array of products (Orhangazi and Yeldan, 2021). The aim was to alleviate balance sheet fragilities of NFCs and maintain the credit-driven economic growth that would restore the confidence of wider social classes in the government. As a result, foreign-denominated loans declined to a certain degree (Table 1).

7. Conclusions

This article has presented a detailed analysis of the financial behaviour of Brazilian and Turkish NFCs over the last 20 years, focusing specifically on the concomitant increase in liquid financial asset and borrowing, both locally and on international financial markets. The most extended explanations of this (seemingly paradoxical) financial behaviour are of two types. First, the traditional corporate governance literature has pointed to investment and precautionary reasons such as hedging against macroeconomic risks and uncertainty, typically when those firms face risky cash-flows and poor access to capital markets. Second, for ECEs firms, several authors, many of them related to the Bank for International Settlements, have highlighted speculative motives. According to this explanation, firms borrow on international financial markets at lower interest rates to invest or lend those funds in the domestic economy at higher interest rates (the carry trade). Besides the evident differences, both explanations rely ontologically on a decision-making process based on firm-level incentives, which pays little attention to why only certain firms can access international funding (size aside). Moreover, this perspective neglects how certain firms were able to do that, both from a structural and institutional perspective. So far, both explanations have been evaluated exclusively with quantitative methods, which only tell a part of the actual motives behind firm decisions.

Thanks to an original methodology that combines different sources of aggregate and firm-level quantitative data with 25 interviews with executives from large firms and financial advisors, this article shows that the financial behaviour of Brazilian and Turkish firms can be better understood by locating that decision-making process in the context of hierarchical financialized capitalism. We do not find evidence for sustaining generalized claims of speculative behaviour: differences between interest income and interest expenses, as well as foreign-denominated income and expenses, have been either negative or slightly positive but far lower than income from regular activities. This finding does not exclude the fact that some individual firms may have engaged in such behaviour, yet it is not something we observe at the aggregate level.

While traditional, precautionary explanations are more in line with the financial behaviour we observe in Brazilian and Turkish firms, these explanations neglect the crucial macro-structural context these firms are operating in. Indeed, in an internationally subordinate context, the apparent paradox of holding low yielding liquid assets, whilst borrowing—relatively expensively—on international financial markets, becomes sadly rational. Whilst firms borrow (in foreign currency) when international liquidity conditions allow, cash holdings protect against times when these conditions change again (which they do ever

more frequently). Moreover, in such subordinate context, these cash holdings—ideally in foreign currency—become key to accessing international financial markets in the first place.

This subordinate context, we show, is also reflected in the type of firms that can engage in such financial operations in the first place. In both countries, firms that were able to access international funding and provide collateral largely belonged to two sectors: either the primary—mostly for Brazil—or state-supported, non-tradable sectors such as construction and telecommunications—mostly for Turkey. This limited sectoral distribution shows that in structurally balance of payments constrained countries, only firms with relatively secure access to foreign exchange have access to international financial markets in the first place. If this is not given through traditional comparative advantages as in Brazil, the state assumes a crucial role in providing that security. As we have shown in this article, this security can come through various measures including PPPs, changing regulations, guaranteeing foreign-denominated loans and indeed providing the loans itself through public banks. This role, we have argued, is more prominent and contradictory in comparison to their developed counterparts due to the tension between ECEs' dependence on transnational finance and the legitimacy of their policymakers to the needs of society.

Of course, we also observe variation in how these structural processes have manifested themselves, both across time and across our two case studies. With regard to the time dimension, we found that whilst local currency borrowing was comparatively higher before the global financial crisis and more directed towards capital expenditures in the context of economic growth, foreign currency debt became more important afterwards and was more used to reduce and/or refinance debt. In both periods, part of those funds was kept as cash holdings. Concerning the cross-country dimension, we found that due to different regulatory and financial institutional structures, Brazilian firms were more likely to issue bonds offshore whereas Turkish firms relied more on the domestic banking system.

While we have addressed several aspects of Brazilian and Turkish firms, there exist additional characteristics that warrant exploration. Unfortunately, our current information does not encompass organizational ties with the government, family ownership and foreign or domestic ownership. Furthermore, we lack data on the currency denomination of sectorial cash holdings. These identified limitations serve as valuable areas for future expansion and investigation.

Finally, we can only advance here some implications of these findings as future lines of research. First, issuing debt in international markets reinforces the (already) powerful position of some firms vis-à-vis the rest in their home country. This can translate into larger political and lobbying capacity to influence economic policies that cement the productive subordination of their home countries. Investigating such political economy dynamics would be an important element of future research.

Second, further research could investigate the burden and risk generated by the financial behaviour described in this article. By being able to issue debt in international markets, these firms introduce one source of financial fragility into the economy. In most cases, public institutions will end up providing the foreign currency firms need to pay back their foreign-denominated loans or, in extreme cases, nationalize their foreign-denominated debt. Indeed, this risk is already present in both countries as seen by the increasing participation of the Brazilian Treasury in BNDES' total funding up to 2016, or the rising share of foreign-denominated loans in public banks in Turkey.

Third, as the contradictions arising from the global integration into financial markets heightened with the capital outflows in 2018 and 2020, state intervention intensified in both

countries again taking different routes. The most prominent change in Brazil was the granting of the Central Bank autonomy in 2021, showing its commitment to the neoliberal agenda. Turkey, on the other hand, took an opposite path, as the government moved further away from the neoliberal programme and the independence of the Central Bank has further eroded. The government even limited the FX transactions of NFCs in 2022 to prevent further depreciation of its currency. Future research should consider the potential effects of these different paths taken by both countries on the financial practices of their NFCs.

Fourth and lastly, while our results are limited to the Brazilian and Turkish experience, there are indications that the sectoral distribution of bond issuances together with increases in liquid financial assets is representative of ECEs more generally. While future research should also focus on this more closely, we would expect the same patterns found in this article regarding the motives for cash holding, as well as the sectorial and state support relevance for borrowing in foreign currency.

Supplementary material

Supplementary material is available at *SOCECO Journal* online.

Acknowledgements

We would like to thank the three anonymous referees and the editors for their very helpful comments on earlier drafts of this article. We also received help and insightful comments from Cristiano Duarte, Firat Demir, Luiza Betina Petroll Rodrigues, Rodrigo Fernandez, Ronen Palan, Sophie van Huellen and the participants of the 31st EAEPE conference in 2019, 33th Annual Meeting of SASE in 2021 and the Historical Materialism Conference in 2022. All errors remain our own.

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Socio-Economic Review, 2024, 00, 1–28

<https://doi.org/10.1093/ser/mwae037>

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