The prospects of the quasi-wo **Subordinate financialisation and the non-financial firm**

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This paper provides original evidence on the financialisation of large Mexican non-financial firms. Over the last decade, to fulfill their external financing requirements, these corporations have substituted long-term bond issuance for bank borrowing. On the asset side, fixed investment has fallen, while holdings of highly liquid financial assets have increased substantially. The case will be made that increased holdings of highly liquid assets in the current conjuncture are characteristic of the carry trade. Against orthodox accounts which blame speculative excesses on deficient corporate governance, this account suggests that firms have undertaken increased treasury activity in the wake of financial liberalization. This is now a *sine qua non* of operating in an environment of increased macroeconomic volatility as well as a result of competitive pressures in an era of financial innovation.

Critical to the specifically *subordinate* nature of financialisation in Mexico is the subordination of macroeconomic policy to the financial needs of these large domestic corporates and their foreign investors. Dependency on foreign capital inflows has committed the Mexican state to a strong peso policy, and low inflation anchored by the domestic interest rate. On the back of these commitments, large corporations have adopted profitable strategies to exploit the availability of cheaper international funding. Foreign investors' participation in the financialisation of the Mexican firm, witnessed by a dramatic rise in the purchases of Mexican securities by US residents in the period between 2000 and 2011, coincides with an increase in financial rather than fixed investment.

Subordinate financialisation brings significant costs to the Mexican economy. Firstly, maintenance of a strong peso exchange rate requires the Banco de México to hold increasing levels of international reserves. The opportunity cost of holding these reserves is being borne by the Mexican taxpayer in the form of reduced government spending on public services. Secondly, high domestic interest rates associated with the inflation-targeting policy have resulted in a bifurcated domestic funding market, with large corporates able to tap cheaper international sources of financing, while domestic SMEs are left reliant on retained earnings to fund their investment, shut out of expensive credit markets and unable to enter capital markets. With smaller domestic suppliers lacking the funds to invest, AAA firms turn increasingly to international suppliers, finding that local suppliers are unable to compete. This has important implications for industrial development and employment.