Foreign Direct Investment in the context of Global Value Chains and Subordinate Financialisation: the Brazilian experience

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Introduction:

This paper aims to discuss the dual character of the Foreign Direct Investment (FDI) flows in emerging and developing economies, more specifically in the Brazilian economy.

From the perspective of economic development in emerging and developing economies, the international economic integration is paramount. In the last decades, there has been an expansion of the Global Value Chains (GVCs) leading by the large Multinationals companies. Those chains have been crucial in shaping economic integration of those economies. In the last decades, FDI flows have been the key driver for development in emerging economies and for the configuration of the value chains around the global economy. On the other hand, international capital flows have been crucial to shape the international financial integration and to define the domestic financial conditions in emerging economies. This process of financial integration of emerging and developing economies can be denominated Subordinate Financialisation.

This paper focuses on the dynamic of the FDI in the Brazilian economy in the last two decades or so. The critical discussion on the FDI dynamic can be important to address Governmental and Multilateral public policies for sustainable and less unequal economic development. First section discusses the major characteristics of the GVC by offering a critical view on their dynamic. Second section presents the major characteristics of the process of financial integration of emerging economies into international financial markets and their possible impacts on the domestic economy, called subordinate financialization. In the end, we show our final considerations.

[1] The opinions of this paper do not express the Banco Central do Brasil (BCB)'s opinion.

1.1 – Global Value Chains and its connection with finance

The insertion of a country in the international trade, or its trade opening, is traditionally supported in mainstream economics and in the discourses of the major multilateral organizations as one of the main measures to stimulate economic growth and socioeconomic development. In this perspective, the internationalization and entry into Global Value Chains (GVC) that has been gaining space in the debates since the 1990s would provide gains to workers and the environment, with technological improvement (upgrading[2]).

Since the late 2000s, international insertion in GVCs was indicated as an economic policy strategy, which would represent a strong development opportunity, by several multilateral institutions. Nevertheless, the debate on GVCs has long ignored factors with strong implications for developing economies, such as wealth distribution, gender inequality and environmental damage. As a result, even in the face of widening inequalities between and within nations, much of the orthodox analysis insists on not questioning the impacts of trade insertion on GVCs. In general terms, the difficulty of GVCs comes from the focus on "value added" at each point in the chain, value added being equal to sales minus costs, other than wages. Thus, GVCs fail to observe how much of the value added is distributed to capitalists and how much to workers, creating distortions.

As the internationalization of production has advanced, the number of workers in globalized industries has more than quadrupled between the early 1980s and the first decades of the 21st century (OECD; WTO; WORLD BANK, 2014). In a mainstream free-trade perspective, this question is studied within the theoretical assumptions of comparative advantage, with its answer almost always being affirmative - guided in terms of mutual gains from specialization and trade (SELWYN, 2019). Thus, the conventional economic approach to GVCs is based on the notion that insertion into global chains would be a phenomenon that would automatically imply development. Or in other words, a problem-solving logic for development. This notion of development, insofar as it considers that the insertion of industries in countries of the Global South, in connection with leading companies of developed countries, automatically implies technology transfer, is not verified in the liberalizing experience of the 21st century - with numerous records of internationalization accompanied by the deterioration of working conditions (as analyzed in GEREFFI, 2001).

[2] See Painceira and Saludjian (2021).

It is important to emphasize that, although predominant, this view is not absolute. In a critical labor economics perspective applied to the insertion of Southern countries in GVCs, it is necessary to consider that global value chains have as a consequence an increasing concentration of power at the corporate level, with appreciable gains for leading companies in developed countries (UNCTAD, 2013). That said, the concentration of market power materializes a new form of global capitalism that privileges the income of the few at the expense of more balanced and inclusive growth model.

Global Value Chains (GVCs) are often presented as having a positive impact on workers, and the discussion about the benefits of trade on socioeconomic development is very old in the history of economic thought. In turn, foreign direct investment (FDI) is presented as engines to growth in international institutions (OECD, 2002). The contemporary transformations of capitalist dynamics have given to the GVCs and for the role of the FDI a new dimension. This dimension is related to the financialization of the economy, to the technological revolution and the role of Multinational Companies, the rise of China in the world economy and the new dynamics of international trade, before and after the 2008 global crisis (Painceira and Saludjian, 2021: 176-7).

In this context of GVC, leading by the Transnational Corporations, the role of finance will be discussed in the following section, it is interesting to mobilize a view that proposes to combine a two-dimensional critical analysis through the concept of Global Inequality Chains (GIC). This concept of GIC is a critique of the Global Chains of Value (GVC). This analytical framework around GVC was developed to try to explain the complexity and confusion around a fragmented global production.

For this reason, according to Campling and Quentin (2017), it is critical to mobilize an objective rather than subjective theory of value, as is the view of GVCs - which follows the neoclassical view of value. As we have seen above, this analytical framework has become the framework for international financial and development institutions, such as OECD, WTO and World Bank (Quentin and Campling, 2017, p. 4). For proponents of the GVC, money and value flows are equivalent, which allows value added to be treated as if it were an increase in value creation. Therefore, it is a matter of critically mobilizing an alternative theory, which allows us to highlight the difference. The Marxist labor theory of value is not the only value theory, but it is the one that expresses clearly and objectively this crucial difference. It is particularly suitable for the analysis of certain phenomena related to Global Value Chains (GVCs) because, instead of focusing on determining (subjective) price, it gives rise to an objective conception of value that is not limited to price. Thus, according to the authors, it is possible to track value creation in the GVC regardless of where the price-determined amount of money is found.

The critical analytical framework proposed by Quentin and Campling (2017) has gotten rid of the neoclassical value theory by establishing that this theory understands value as subjective and confuses value and its monetary expression. Once it is done, the discussion can move forward by focusing on the creation of surplus value within the production of goods and how the owners of the means of production (capitalists) appropriate the surplus value. This is similar to what Marx did in the past[3].

The authors point out, and this is important to their point about GIC, that it is not just productive labor paid for by wages because, in the contemporary capitalism, the paid portion of labor power is not materially productive of surplus value. This is often the case in developing countries as labor force is poorly paid and often dangerous.

It is important to state that the discussion on value theory is far from incidental and allows for critical discussion of Global Value Chains by integrating the spatial dimension and thus the global nature of contemporary capitalism in terms of development and dynamics.

Following Quentin and Campling (2017), there are two dimensions here. The first one relates the GVCs based on the Marxist value theory, focusing on the GVC's structure, particularly by differentiating the leading companies from the smaller companies and the companies located in developed countries and in developing countries. The supporters of the GVCs present the case of leading companies that have market power as a goal to be achieved by small companies, being in developed countries or not. This process of "upgrading" or improvement of small companies would be done by the insertion into the GVCs, thanks to the market forces often represented by a smile curve. Leading companies that integrate into GVCs by participating in activities such as research and development, design, marketing or advertising, create a higher amount of value added than the small companies that are restricted to production and distribution. The insertion into the GVCs would be a way for small firms to "climb" the value-added ladders, in the expectation of being a leader. This perspective for insertion into the GVCs serves only to promote a narrative on the capture of value creation in the hands of certain places of the GVC and to maintain a hierarchy and domination within the GVC. The second dimension it critically tackles is the Global Wealth Chains (GWC). These chains are the routes through which surplus is expanded in favour to owners of capital by minimizing the taxes payments.

[3] The question now being discussed is the distribution of this surplus value among the various capitalists, being industrial capitalists, bankers, rental landowners, or merchants. Similar to what Marx did at the beginning of the Volume 3 of his book Capital, A Critique of Political Economy.

Multinational companies and large corporations are expanding their activities globally, and seeking to maximize their profits and minimizing taxes payments. This aim to minimize the payments of taxes and other levies has an influence on the development policies of the Nation States that try to attract leading companies by proposing tax exemption rules, often involved in real taxation wars between them. To win the race for inflows of Foreign Direct Investment, the competition between states is characterized by a fiercely competition to whom will reduce taxes the most for the leading Multinational companies which, in turn, might cause public financing problems later on due to the lack of fiscal revenues inflows and macroeconomic imbalances.

As the authors note that even being contemporary with changes in production on a global scale, this analytical framework of the GVC remains a limited framework (bad lens), uncritical and blind for the distribution between profit and wages, and obsessed by an analysis in terms of value added. This analysis remains very focused with proposals for liberal or liberalizing policy practices on the agendas of international institutions and unable to consider the distributional effects of the tax systems of the legal frameworks (jurisdiction) in which this value added increases. The work of Quentin and Campling and their research group attempts to move beyond these limits by critically combining GVC and global wealth chain (GWC) in order to have an analytical framework they call Global Inequality Chain that can overcome these shortcomings and limitations (or lack of political will). This GIC framework is articulated in two dimensions: horizontal: GVC; and vertical: Global Wealth chain. The idea is to be able to account for the creation of value throughout the productive chain of its appropriation by the various actors involved (multinational companies for the most part) (horizontal dimension). All this in a financialized global system in which the main objective is the search for the best financial closure to pay the least possible taxes (vertical axis) juggling legal practices and illegal practices (tax evasion, tax havens).

Thus, the authors present the Global Chains of Inequality (GCI): Inequality in the appropriation of the greatest value created by labor and assumed by capital. Inequality in the distribution of capital gains created at the expense of the state and public power. This critical perspective profoundly alters the view one can have on Global Value Chains (GVCs) and their neoliberal proposals that promote unequal and combined capitalist development.

As we will discuss in the following section, FDI and GVC have an organic link, influencing each other, but a critical study of the limits of this relationship in terms of its consequences for socioeconomic development is necessary. International institutions, such as ECLAC (2022) and UNCTAD (2022), have pointed out the need to go beyond the dominant view of a positive relationship between FDI, GVC and development through productive investment.

In this section, we have discussed the dynamic of commodities and services flows in the global scale (Global value chains). However, the full understanding of the GVC and FDI, in last instance the dynamic of capitalist accumulation, should take in account the analysis of the financial (circulation) sphere. In this regard, the GVC and FDI take place in the context of financialization in which in the case of emerging economies, like Brazil, has a subordinate character.

1.2 – Financialisation in Emerging Economies: a subordinate character[4]

Financialisation is broad phenomenon and has been well discussed in the last years, particularly in developed countries. There are different interpretations on this phenomenon, and its definition and scope have been subject to an open debate. From the Marxist political economy point of view, the process of financialisation should be understood as an attempt to address the main features of contemporary capitalism.

In the last 50 years, there has been major changes in capitalism, both coming from production and circulations spheres. Sotiropoulos et al. (2013) understand financialisation as organic development of the capitalist accumulation. Fine (2010) put forward some general characteristics of financialisation, such as the expansion and proliferation of financial markets, complexity of financial instruments and services, domination of finance over industry, rising inequality and penetration of finance in a wide range of economic and social reproduction.

The sources of financialisation can be defined both in terms of domestic economic developments and by the end of the Bretton Woods system in 1970s. These sources include the stagnation of late capitalism, the falling rate of profit and the consequent contraction of demand, requiring a series of financial activities for the continuance of the system (Magdoff and Sweezy, 1972; Magdoff and

[4] This section is based on the Painceira (2022: chapter 1).

Sweezy, 1987; Arrighi, 1994; Brenner, 2004). McNally (2009), Brenner (2006) and Lapavitsas (2013) discuss the end of the Bretton Woods system. The role of the state can be seen through the lifting of regulations on financial markets, such as opening of capital account and capital markets deregulation. The financial deregulation by government actions, which has unleashed the forces of finance, led to an unprecedented increase in financial markets and financial actors (Boyer, 2000; Aglietta and Breton, 2001; Dumenil and Levy, 2004).

More specifically, based on the Marxist tradition, financialisation represents a profound transformation of the financial system based on changes in real accumulation since the early 1970s (Lapavitsas, 2009, 2013). Financial activities have spread into several new economic sectors and areas of daily life: housing, pensions, consumption and so on. Growth of finance has provided a fresh scope for the form of value to expand, mainly in developed capitalist economies. Important elements of this process have been the privatisation of activities and capital assets that were previously under state control, as well as the deregulation of financial markets and institutions.

The general financialisation approach is based on the Lapavitsas's contribution (2013) that addresses this phenomenon through changes in the key economic units, namely non-financial companies, banks and households. For instance, basically, non-financial companies have increasingly relied more in open financial markets than in banks' lending operations to finance their activities, consequently banks have moved towards households' loans, engaged more with trading operations and raised more revenues from fees. Meanwhile, households have financed their needs through the financial system, increasing their indebtedness.

It is important to say that the process of financialisation has a monetary basis as the role of the major players in the financial markets (banks) is based on the concept of money, which connects the production and circulation spheres. Monetary issues matter for the process of capital accumulation, and the expansion of finance in contemporary capitalism has been supported by banks through their liquidity provision and credit allocation functions Lapavitsas (2013) and Painceira (2022).

The rise in international capital flows, which can be grasped by the categories of world money and loanable capital[5], has caused important changes in the global financial system, in particular for emerging countries. The international dimension is fundamental for emerging economies. The subordination of emerging and developing economies is related to the process of integration of those economies into global economy, being in the productive or financial spheres. Essentially, the subordinate financialisation is related to the integration of emerging and developing economies into international monetary system.

The category of world money is important to explain the hierarchic nature of the international financial system and to grasp the spread of financialisation for emerging countries through the enormous rise in international capital flows in the last two decades. Painceira (2009, 2011 and 2022) and Powell (2013) have pointed to the potentially subordinated nature of financialisation in emerging economies. Painceira (2009) points out that the driving force has been international capital flows. Becker et al. (2010) and most recently Rodrigues et al. (2016) have highlighted the specific nature of financialisation processes in the semi-periphery. Kaltenbrunner and Painceira (2014) highlight that new forms of external vulnerability have arisen in the process of subordinate financialisation.

As discussed by Painceira (2022), the process of reserve accumulation in emerging economies can be seen as the major driving force to the changing nature of domestic financial markets and their international integration. The process of reserve accumulation is one of the major phenomena in international finance in the last two decades and has been the catalyst of financialisation in emerging economies. Contrary to the prescriptions coming from the mainstream tradition, the huge reserve accumulation has not promoted the promised autonomy for economic policy in emerging economies[6]. In fact, it has reinforced the hierarchic nature of the global monetary system.

In the circulation sphere, Central Bank (CB) is organically related to the banking system. The Political Economy of CB is understood through the relationship between banks and central banks. Central banks' actions have reinforced subordinate financial integration through financial regulation and monetary policy measures. In this regard, the subordinate character of the financial integration of

[5] For more details, see Painceira (2022).

[6] In some way, the context of higher level of international reserves in Brazil has been used as key argument to reinforce the financial integration into global financial system. For example, this argument is in the exposition of motives to the bill, called Marco Cambial, on foreign exchange markets and capital flows. This bill, sanctioned by the end of 2021, is a set of normative measures related to the foreign exchange markets and international financial integration.

emerging economies leads to changes in central banks and Non-financial companies in these economies.

In this paper, we show that there has been a predominance of financial motivations in the dynamic of foreign direct investment (FDI) in the Brazilian economy. This capital flow has been the major driver for shaping the configurations of the global value chains across the world economy. Following the Marxist Political economy approach, capital accumulation should be understood as unity of productive and circulation spheres. This section discussed the major characteristics of the GVC and we have shown a critical view on the dynamic of those value chains, based on the Global Inequality chains (GIC), which has had impacts, mainly on the emerging economies. Then, we showed the subordinate character of the financial integration of emerging and developing economies into international monetary system. This process can be defined as subordinate financialization. Next section discusses the Brazilian experience for foreign direct investment (FDI) in the context of the global value chains and subordinate financialization.

2 – Subordinate Financialisation and Global value chains: the Foreign Direct Investment dynamic in Brazil

This section analyses the dynamic of the foreign direct investment in the Brazilian economy in the context of the Subordinate financialisation.

2.1 – The speculative nature of the FDI flows in the Brazilian economy

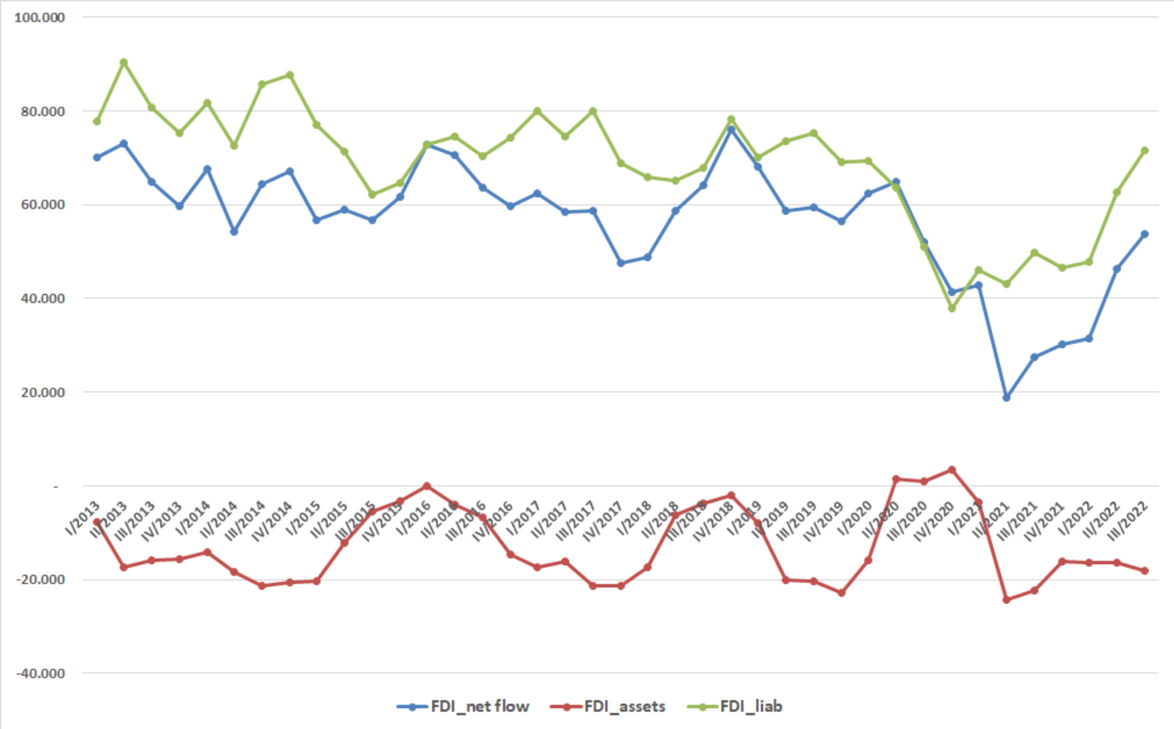
After the 2008 global financial crisis, emerging market economies received a huge amount of short-term capital flows as a consequence of the large monetary easing policies promoted by major central banks of developed countries. There was a huge capital inflow to Brazil as soon the crisis eased by the middle of 2009. Brazilian authorities started to implement capital controls measures by the end of 2009 in order to avoid the exchange rate (BRL/US$) appreciation, which was damaging the exports competitiveness. Those measures initiated on short-term capital flows (portfolio and other investments), such as the imposition of taxes or quarantine on short-term capital flows (equities, bonds and loans instruments) by the end of 2009. According to Painceira and Saludjian (2021), the net foreign direct investment inflows started to increase from $34.1 billion in the middle of 2010 to an astonishing $90.6 billion, just in the next year (September 2011). This acceleration of FDI flows could not be explained by investment or productive reasons. This sudden and substantial rise in the FDI inflows was driven by speculative motives to overcome restrictions in short-term capital flows movement. The speculative movement started to ease only when restrictions were imposed in the FX derivatives market. There was a drop in the FDI inflows when capital controls ended by the middle of 2013.

It is interesting to highlight that this type of speculative movement in the FDI flows can be noted in times that are more recent. The Figure 1 shows the dynamic of the FDI flows in terms of net flows, asset and liabilities since 2013. After a strong drop in the FDI flows during the context of the Covid-19 crisis in 2020, the speculative character of the foreign direct investment (FDI) flows may also be observed during the last tightening monetary cycle promoted by the BCB in 2021-22.

Although there was a rebound in the FDI flows around the global economy in 2021, in which the pre-Covid 19 level was reached[7], the recovery in Brazil has been more intense, mainly during 2022. The 12 months cumulated FDI inflow (liabilities) increased from $46.4 billion to $77.1 billion between December, 2021 and November 2022[8], even in the context of high uncertainty due to global and domestic factors. The Intercompany loans, which largely reflects the Multinationals financial relations, has pushed this growth as it increased from minus $ 0.5 billion to $18.9 billion in the same period. The 12 months cumulated effective Selic rate (monetary policy rate) increased from 4.4% in 2021 to 12.4% by the end of 2022, with the nominal Selic rate in the level of 13.75%. The same movement happened with portfolio flows. However, this type of capital flow is more sensitive to interest rate movements.

[7] According to UNCTAD (2022b), the global FDI flows growth in 2021 increased 64% in relation to 2020, reaching the level of US$ 1.6 trillion. However, the recovery was uneven across the global economy as 75% of the global FDI growth in 2021 was concentrated in developed economies.
[8] See BCB time series.

Figure 1: Foreign Direct Investments flows in Brazil: net, asset and liabilities, 4-quarter cumulative ($ million)



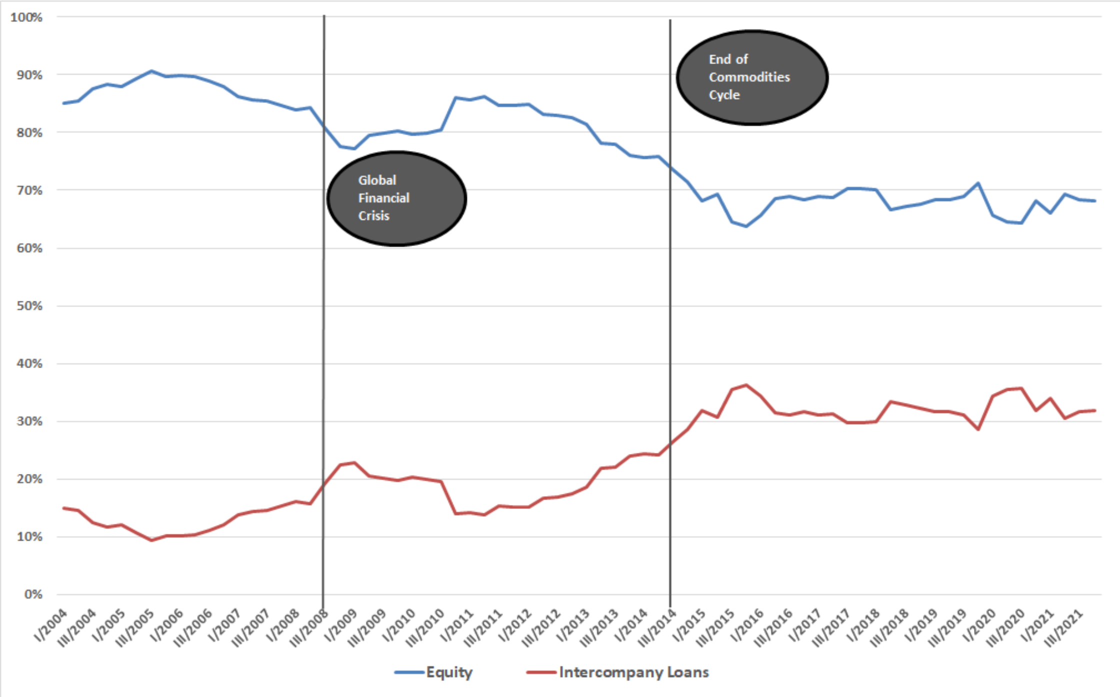
Source: BCB (2022a).

In order to have a more complete view on the FDI dynamic, in terms of the relationship with the GVCs and the impacts of financialization on its own dynamic, is necessary to have more details on the composition and the origins of the foreign investment.

In terms of the composition, the foreign direct investment (FDI) can be formed by: equity and investment fund shares, and intercompany loans. These loans can also be denominated as debt instruments[9]. In the Figure 2, there has been a rising in debt instruments, which are connected with Multinationals activities in their own value chains. The share of intercompany loans of the total FDI stock increased from 14% in the end of 2010 to 32% by the end of 2021, after reaching a peak of 35% in the end of 2015. This fact highlights the importance of the financial relations for Multinational companies in Brazil as those financial operations have more than double in the last decade. This process can be seen as financialization of the FDI flows.

[9] In other words, debt instruments are registered as direct investment when both debtor and creditor belong to the same corporate group, excluding the financial sector. Also includes debts in goods or services.

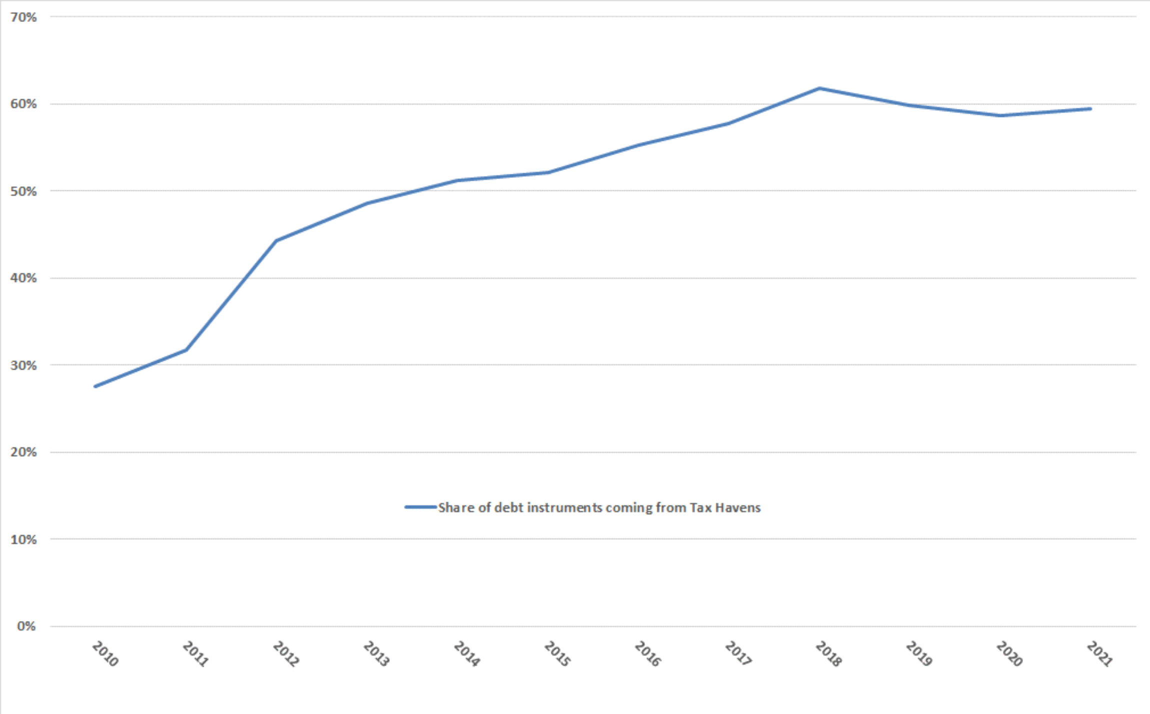
Figure 2: Composition of the total Foreign Direct Investment stock (percentage)



Source: BCB (2022a).

In terms of the origins of the FDI to the Brazilian economy, there has been a strong connection between rising in Multinational financial activities, through debt instruments, and their direct investments inflows coming from fiscal paradises. The Figure 3 shows an astonishing rise in the share of FDI, through debt instruments, of the total FDI stock coming from tax havens. As can be seen in Figure 3, between 2010 and 2021, this share has more than double, increasing from 27.6% to 59.5%. In another words, more financialised the foreign direct investment is, more the taxes evasion is possible.

Figure 3: The share of debt instruments of the total Foreign Direct Investment with origins in Tax Havens (percentage)



Source: BCB (2022).

2.2 – Towards a generalisation of the Brazilian FDI experience across the global economy: more speculative and generating fiscal loss

In the last decade or so, Foreign direct investment dynamic in the Brazilian economy has become more financialised through the increasingly importance of financial operations in the Multinationals' strategies, and has seen the rise in the importance of investment flows coming from fiscal Paradises. This has meant that Multinational companies have extensively used taxes optimizations' strategies when investing in Brazil. In this regard, the FDI has had a more speculative character, consequently more volatile. However, the Brazilian experience has not been an exception in the global economy.

According to BIS' report (2021: section 1), the FDI has had a less stable nature, essentially reflecting the complex activities by the Multinational companies. There has been a process of financialisation of the FDI. For BIS (2021:6), "this is related to the increasing complexity of corporate structures and consequent rise in intra-company transactions." Similarly, to the Brazilian experience on FDI, there has been a rise in inter-company financial operations in the Multinationals located in advanced economies and, mainly in emerging economies.

It can be observed that large non-financial companies in emerging economies have relied in open international financial markets for funding purposes (BIS, 2021: 6). Similarly to the share of debt liabilities, which refer to direct investments debt instruments liabilities stock, of selected emerging economies (such as Brazil, Russia, Chile, Poland, China, Hungary and Philippines) of total external liabilities increased from 6% in 2008 to 11% in 2021. However, in some economies, this share is higher in 2021. For example, Chile is 13%, Russia 15%, and Brazil and Philippines are around 19%.

On the other hand, similarly to the Brazilian experience, the share of international debt securities issued by Multinational companies through offshores entities has increased in selected emerging economies, such as Russia, India, Indonesia, Chile, Thailand and South Africa, between 2010 and 2020.

In this regard, FDI flows have had a volatile behaviour, reflecting its character more financialised of the last decade or so in the global economy. On the other hand, the rising share of FDI flows coming from tax havens, leading by Multinational companies, reveals the importance of tax payments for companies' decisions. In the same direction, Tørsløv et ali. (2022) state clearly that, in the context of financial capitalism, international capital flows have not benefited productive investment or employment, but they have helped multinational companies taken advantage towards tax avoidance strategies and fiscal optimization strategies. These strategies have had deleterious consequences on public finances. In last instance, Multinationals companies' tax optimization strategies have meant lost in State tax revenues.

This tax collection loss, the avoidance strategies by multinational companies, are not an exception or a deviation from the capital logic (or dynamic) and it has reached a relevant proportion. It is possible to estimate the corporate tax revenue loss based on the database of Wier and Zucman (2022). In Brazil, for example, 17% of total corporate tax revenue (or US$9.1 billion) is "lost", or ceases to be collected through taxes on the profits of US$26.8 billion of Multinational companies. These profits escape taxation (regardless of the criticism that we can and must make about the level of capital taxation in Brazil) by passing through tax havens. Three quarters of this "loss" of fiscal resources

(US$6.8 billion or 13% of the total fiscal revenues) are due to tax havens outside the EU (Bermuda, Caribbean, Puerto Rico, Hong Kong, Singapore and Switzerland among others) and the rest (US$2.3 billion or 4% of the total tax "loss" is due to tax havens within the European Union of which we can mention the Netherlands (US$1.0 billion and 2% of the total), Ireland (US$500 million and 1% of the total), Luxemburg (US$218 million and less than 1% of the total) and Malta (US$371 million and 1% of the total).

These data for Brazil in 2019 support our hypothesis, but this snapshot becomes more relevant when we analyse the dynamics of this "loss" of revenue during a recent period. According to the database of Wier L. and G. Zucman (2022), the "loss" of corporate revenues more than doubled between 2015 and 2019, increasing from 8% to 17% in just four years. This increase is in line with the global trend in both developed and developing countries[10]. However, it should be noted that the dynamic of corporate revenues loss has been higher in Brazil than the average corporate tax loss in the world between 2015 and 2019. While in Brazil, there was an increase of 9% in the relative loss of the total corporate tax revenues, the global average of the relative loss was a rise of 1% during this period. These comparisons over time and with the global economy show the relevance of the analysis of the Brazilian FDI experience.

Final Considerations

This paper has addressed the relationship between the emerging economies' integration into Global Value Chains and the economic development in context of Financialization through the dynamic of FDI, leading by the Multinational companies, focusing on the Brazilian experience.

[10] According to Wier and Zucman (2022: 3-4), there are three forms of profit shifting (see Beer et al. 2020; Brandt 2022; or Heckemeyer and Overesch 2017 for a survey). First, multinational companies can manipulate intra-group exports and import prices: subsidiaries in high-tax countries can try to export goods and services at low prices to related companies in low-tax countries, and import from them at high prices. Second, multinationals can shift profits using intra-group interest payments (see, e.g., Huizinga et al. 2008): affiliates in high-tax countries can borrow money (potentially at relatively high interest rates) from affiliates in low-tax countries. Third, multinationals can move intangibles—such as trademarks, patents, algorithms, or financial portfolios— produced or managed in high-tax countries to affiliates in low-tax countries, which then earn royalties, interest, or payments from final customers. In principle, all of these channels of profits shifting could be curbed by rigorous enforcement of the so-called 'arm's length principle. This principle states that all transactions within the multinational firms should be priced as they would have been in a transaction with an external third party. In practice, however, the capacity-constrained tax agencies struggle to enforce the arm's length principle (see Tørsløv et al. 2022b), and in the case of intangible transactions the principle is often not conceptually well defined (Devereux and Vella 2017).

The first section analyses the GVC from the perspective of economic development in emerging economies. FDI has been the major driver for the emerging economies' integration into GVC in the last decades. It is shown the GVC have not worked properly for a successful integration from the emerging economies perspective. It has been quite to the contrary, as these chains have reinforced the inequality among developed and emerging economies, and between capital and labour. We have discussed that the emerging economies' integration through FDI should include productive and financial spheres. In this regard, GVC and FDI flows should be considered in the context of financialisation. In emerging and developing economies, financialisation assumes a subordinate character, which is related to a subordinate position in the international monetary system.

This integration in the capital accumulation dynamic has allowed our analysis to go beyond of the mainstream view of dichotomy between productive capital and financial capital. In this vein, second section discussed the FDI dynamic in the Brazilian experience since 2010. It is shown the speculative character of the FDI during the period of capital controls, just after the 2008 global crisis, and during the recent cycle of monetary tightening after Covid-19 crisis. The analysis of the composition and origins of the FDI flows in Brazil shows that this investment has become more financialised, as there has been an increasingly dependence on inter-company loans, and more dependent in flows coming from Tax Haven jurisdictions. Both movements are related to Multinational strategies in Brazil. However, similar characteristics can be seen around the global economy. In this regard, this section shows the importance of the discussion on FDI in the GVC for pointing out to the relevance of fiscal paradise in the Multinational strategies and for the fiscal losses of States.

We think it is important to grasp, in critical terms, the role of FDI in the contemporary capitalism in the context of subordinate financialisation and predominance of GVC in the Multinational activities. In this regard, based on the Brazilian experience, this paper has discussed the contemporary dual role of the FDI flows, related to their speculative character and deleterious impacts of Multinationals' dynamic on State tax revenues. By having this critical perspective in mind, it may be possible for emerging economies to undertake development strategies which could mitigate these characteristics towards a set of public policies for a social-economic development more sustainable and less unequal.

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