Taking away the ladder

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The notion of the BRICS (Brazil, Russia, India, China, and later, South Africa) was concocted by Goldman Sachs' Jim O'Neill. His 2001 acronym was initially seen as a timely, if not belated acknowledgement of the rise of the South.

But if one takes China out of the BRICS, one is left with little more than RIBS. While the RIBS have undoubtedly grown in recent decades, their expansion has been quite uneven and much more modest than China's, while the post-Soviet Russian economy contracted by half during Boris Yeltsin's first three years of 'shock therapy' during 1992-1994.

Unsurprisingly, Goldman Sachs quietly shut down its BRICS investment fund in October 2015 after years of losses, marking "the end of an era", according to Bloomberg.

Growth spurts in South America's southern cone and sub-Saharan Africa lasted over a decade until the Saudi-induced commodity price collapse from 2014. But the recently celebrated rise of the South and developing country convergence with the OECD has largely remained an East Asian story.

Preventing emulation

Increasingly, that has involved China's and South Korea's continued ascendance after Japan's financial 'big bang' and ensuing stagnation three decades ago. They have progressed and grown rapidly for extended periods precisely because they have not followed rules set by the advanced economies.

Industrial policy — involving state owned enterprises (SOEs), technology transfer agreements, government procurement, strict terms for foreign direct investment and other developmental interventions — was condemned by the Washington Consensus, promoting liberalization, privatization and deregulation favouring large transnational corporations.

Well-managed SOEs, government procurement practices and effective protection conditional on export promotion accelerated structural transformation. When foreign corporations were allowed to invest, they were typically required to transfer technology to the host economy.

Countries have only progressed by using industrial policy judiciously when sufficient policy space was available, as was the norm in most developed countries. But such successful development practices have been denied to most developing countries in recent decades. Instead, the North now emphasizes the dangers of industrial policy, subsidies, SOEs and technology transfer agreements, to justify precluding their use by others.

Blocking the alternative

Instead, corporate-led globalization continues to be sold as the way to develop and progress. Some advocates insist that global value chain participation will provide handsome opportunities for sustained economic development despite the evidence to the contrary.

Major OECD economies appear intent on tightening international rules to further reduce developing countries' policy space under the pretext of reforming the multilateral trading system in order to save it.

Trump and other challenges to this neoliberal narrative do not offer any better options for the South. Nevertheless, their nationalist and chauvinist rhetoric has undermined the pious claims and very legitimacy of their neoliberal 'globalist' rivals on the Right.

Infrastructure finance

UNCTAD's 2018 Trade and Development Report emphasizes the link between infrastructure and industrialization. It argues that successful industrialization since 19th century England has crucially depended on public infrastructure. Infrastructure investment is thus considered crucial for economic growth and structural transformation.

The ascendance of the neoliberal Washington Consensus agenda has not only undermined public interventions generally, but also state revenue and spending in particular, especially in the developing world. But even the World Bank now admits that it had wrongly discouraged infrastructure financing, which it now advocates.

Most Western controlled international financial institutions have recently advocated public-private partnerships to finance, manage and implement infrastructure projects. The presumption is that only the private sector has the expertise and capacity to be efficient and profitable. In practice, states borrowed and bore most of the risk, e.g., of contingent liabilities, while private partners reaped much profit, often with state guaranteed revenues.

Unexpected policy space

Infrastructure, including both its construction and financing, has been central, not only to China's own progress, but also to its international development cooperation. China's financial redeployment of its massive current account surplus has created an alternative to traditional sources of investment finance, both private and public.

The availability of Chinese infrastructure finance on preferential or concessionary terms has been enthusiastically taken up, not least by countries long starved of investible resources. Not surprisingly, this has resulted in over-investments in some infrastructure, resulting in underutilization and poor returns to investment.

The resulting debt burdens and related problems have been well publicized, if not exaggerated by critics with different motivations. Now threatened by China's rise, Western governments and Japan have suddenly found additional resources to offer similar concessionary financing for their own infrastructure firms.

Thus, not unlike the US-Soviet Cold War, the perceived new threat from China has created a new bipolar rivalry. That has inadvertently created policy space and concessions reminiscent of the post-Second World War 'Golden Age' for Keynesian and development economics.