The BRICS Then and Now
- Some Lessons from History -

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Abstract: I examine the growth experience of the current BRICS countries in the light of the experience of earlier BRICS-like countries (France, Germany, Italy, Russia and Japan) as well as of the settler economies (Argentina, Australia, Canada, the US and South Africa) using the developmental framework of Alexander Gerschenkron. I also examine the political implications for the BRICS countries of their economic growth. The economic analysis shows the possibility of a middle-income trap at all points in history, due in part to the inability of countries to modify their development strategies or to adopt appropriate policies: continuing to foster the acquisition of labor and capital is critical for growth. In the political sphere, economic development changes the constellation of political forces in a country and the smooth adjustment to new political realities is a key factor in sustaining rapid growth. Within this analytical framework, China and India seem the BRICS countries best poised for continuing their development path. However, the BRICS are unlikely to initiate fundamental changes in the global economic order.

[Key words: BRICS, economic development, economic backwardness, factor endowments, global economy]
While these views may overstate the impact that the BRICS will have on the global economy and on geopolitics, they do raise the two key dimensions of the BRICS phenomenon, economics and politics. Therefore, in this essay, I shall consider both aspects of the BRICS’ future. On the economic side, I examine the ability of the BRICS countries to sustain their growth and to avoid the so-called middle-income trap that concerns many of the critics of the BRICS. Here, I will use an explicitly historical approach based on the insights into development and growth put forward by Alexander Gerschenkron (1962). On the political and geopolitical impacts of the BRICS, I will build on the relationship between factor endowments and the political strength of various national factions developed by Rogowski (1989) and on analyses of the role of hegemons in international relations.

2 The Economics of Previous BRICS-like Countries

2.1 Why Gerschenkron?
Given the current emphasis on institutions (Acemoglu and Robinson, 2012) and on total factor productivity (Prescott, 1998) as the drivers of economic prosperity, it may be surprising that I use an older analytical framework developed by Gerschenkron to analyze the growth of European economies in the 1800s. There are two reasons why Gerschenkron’s framework is suitable for my purposes. The first is that I propose to compare the experience of two groups of countries in the 1800s to that of today’s BRICS. I will argue that these countries were, to a large extent, the BRICS of their day and that Gerschenkron’s analysis is useful for understanding both them and today’s BRICS. The second reason is that the development of the BRICS, while dependent on the creation of appropriate institutions and on productivity growth, depends, as it did in the case of earlier nations that attempted to become wealthy developed countries, on their ability to marshal domestic resources, capital and labor, for a sustained period of time so that capital would, in fact, become the carrier of new technologies and higher productivity.

Gerschenkron based his theory on the experience of European countries in the early 1800s. A key element of his theory was the concept of relative backwardness. Countries gauged their performance on how prosperous and geopolitically powerful they were relative to the most developed countries. Lagging behind created tension in the less developed countries, but it also provided an opportunity; the more they lagged behind, the more they could benefit from adopting the most advanced technologies from the most advanced countries to spur their growth. Gershenkron’s stress on “relative” backwardness meant that the feeling of tension between the most advanced countries and less developed ones applied not to tensions between the most advanced countries and what might now be called least-developed countries but rather to tensions felt by countries that were relatively close to the most advanced countries in their levels of income and development. Growth, if it did occur in the more backward countries, was in the form of a sustained spurt in output that had to be maintained for the relatively long period of time it took the laggard countries to catch up with the most advanced ones. Another key element of Gerschenkron’s theory was that of prerequisites. Many development theorists of his time, and of today as well, claim that there are social and institutional prerequisites that countries must meet if they are to catch up with the most advanced. Gerschenkron recognized that lagging countries would have to accumulate large amounts of capital quickly, but he argued that laggard countries could develop substitutes for the institutions and methods of capital accumulation that had been used by countries that had developed earlier. He also proposed that each country would follow a development path that differed from its predecessors, with productivity gains driven by new industries that had not been available to countries that had developed earlier and that these differences in the technological basis of growth would require new ways of organizing markets and firms, with an emphasis on larger firms. Finally, Gerschenkron’s analysis of the growth experience of the European economies in the 1800s showed that not all countries were able to sustain growth for a sufficient period of time to catch up with the leaders and that they relapsed into slower growth at lower levels of income, perhaps the first systematic exploration of the currently popular concept of the middle-income trap.


2.2 The First BRICS

I categorize BRICS-like countries of the early 19th century as having the characteristics of the current BRICS. They were large enough to be of importance to the global economy, they were capable of influencing how the global economic order functioned and they felt tension between their economic and geopolitical status and that of the leading or most developed country, Great Britain. Since the industrial revolution had begun in Great Britain, at the beginning of the 1800s it was both the wealthiest and the most powerful country in the world. This created tensions for France, Germany, Imperial Russia, Italy and Japan, what I call the first BRICS. Up to the early 1800s, the first three of these countries had been comparable to Great Britain both economically and as the major powers in Europe. Thus, they keenly felt Great Britain’s outpacing them in both the economic and geopolitical spheres. All these countries recognized that industrialization and the adoption of new industries could lead to vast changes in living standards and national power. As Table 1 shows, these countries were more or less the same size, but they differed in terms of their levels of development.

The tension they felt, and the opportunities that their relative backwardness vis à vis Great Britain offered, led to spurts of growth that enabled some of these countries to catch up with Great Britain, as Table 1 shows. In the case of France, Germany and Japan, these spurts of growth, once they began, continued through to the eve of World War I as evident from Figure 1, which also shows that, the later a country began its growth spurt, the more rapidly it grew. This reflected Gerschenkron’s concept of relative backwardness. The more backward the country, the higher the productivity of the new technologies it could adopt and thus the faster its growth. The first country to begin a growth spurt was France, which from 1830 on grew faster than Great Britain, although by a narrow margin. In part this was because, in the early years of the 1800s, the technological innovations that France could adopt from its more advanced neighbor were mainly in the textile industry. Germany, which began its growth spurt later, grew at a faster rate than did either Great Britain or France and its early growth was based not on the adoption of technology for textile production but rather on the adoption of the latest technologies in metallurgy and, later, in chemicals and machine building. Japan lagged farther behind and thus experienced an even faster growth spurt. By the start of World War I, these countries had narrowed or eliminated the gap between themselves and Great Britain.

In all countries there was some measure of institutional development to meet need for the accumulation of capital, the critical component of the catch-up process. In Great Britain, early industrialization was financed largely by private wealth. In France, financing industrial investment and the infrastructure needs of the country outstripped the supply of private capital, and a new type of bank, the Credit Mobilier, emerged to finance industrial development. In Germany and Japan (Allen, 1981), where the adopted technologies called for even larger firms with a commensurate need for larger credits, new forms of banking that involved close ties between banks and firms emerged.

Two countries failed to close the gap with Great Britain despite some gains in per capita income. They

<table>
<thead>
<tr>
<th>Country</th>
<th>per capita GDP 1860</th>
<th>per capita GDP 1912</th>
<th>Population 1860</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Britain</td>
<td>3355</td>
<td>6161</td>
<td>29</td>
</tr>
<tr>
<td>France</td>
<td>2404</td>
<td>5274</td>
<td>37</td>
</tr>
<tr>
<td>Germany</td>
<td>1529</td>
<td>5487</td>
<td>36</td>
</tr>
<tr>
<td>Italy</td>
<td>1422</td>
<td>2632</td>
<td>26</td>
</tr>
<tr>
<td>Japan</td>
<td>985*</td>
<td>1484</td>
<td>33</td>
</tr>
</tbody>
</table>

*1870


The tension they felt because of their relative backwardness was in part due to major social changes. In Europe these changes were the result of the Revolutions of 1848, which overthrew the reactionary political system that had been reintroduced by the Congress of Vienna. In Japan, the Meiji Restoration played a similar role. The immediate consequence of these political changes was an upsurge in nationalism, which made the economic performance of the nation and its standing among its peers more important to the public than loyalty to monarchs and to the old social order.2)
4) As Figure 1 shows, Italy stagnated through the first half of the century and experienced a brief spurt of growth following the reunification of the country, but this soon lapsed into slow growth. Russia had two brief growth spurts, one in the 1890s, which ended with civil unrest following the end of the Russo-Japanese war and then another one following this period of unrest and ending with the onset of World War I. The root causes of these countries’ failure to escape the middle-income trap were similar; each failed to create conditions for the sustained growth of capital for investment and of an industrial labor force. Although Russia abolished serfdom, the collective responsibility of peasant communities for reparations to landlords trapped peasants in agriculture, hindering the recruitment of labor for industry. Moreover, banks were too weak and corrupt to be effective intermediaries, so the task of financing development fell to the government. This required steep taxes on peasants, leading to popular unrest and the collapse of the growth spurt in 1905. Subsequently, the government opted for more “organic” ways of providing capital for industry, which led to a resumption of growth, but what the outcome of that growth might have been is entirely speculative due to the onset of World War I.

Italy also failed to develop mechanisms for accumulating industrial capital and labor. Its resource endowment and ill-advised tariff policies slowed the development of metallurgy. The reliance on small firms also imposed higher cost of information on, and thus less lending by, both domestic and foreign banks. The government’s ignorance of the economic and social conditions of southern Italy led to economic stagnation in the region and to the emigration of 24 million people between 1876 and 1914.

In sum, three of these first BRICS were able to catch up with the leading country by adopting the most advanced technology and by creating institutions that facilitated domestic capital accumulation and the development of an industrial labor force. But two of the five failed to do so, a success rate that is to be repeated by future BRICS.

2.3 The Settler Economies as BRICS

Later in the 19th century, a second group of five countries with BRICS-like characteristics emerged: Argentina, Australia, Canada, South Africa and the United States. These countries are often referred to as
settler colonies or settler countries (Lloyd and Metzer, 2013). In what might be called extractive colonies, the colonizing country sent out a small cadre of government officials to administer the colony, some soldiers to maintain order and merchants or businessmen to oversee economic activity, but the indigenous population of the colony formed the major part of the labor force. In contrast, in settler colonies, the indigenous population was either initially small or reduced in size by diseases brought by the colonizers or by armed conflicts with the colonizers. Often the indigenous peoples were placed on reservations or forced to distant parts of the colony where they had little access to mainstream economic activities. Instead, the bulk of the labor force consisted of the colonists.

In such colonies there was an abundance of land and natural resources, but labor and capital were scarce. They exported food, minerals and other raw materials, thus making them extremely dependent on the global economy and vulnerable to fluctuations in commodity prices. Thus, the road to catching up with advanced countries followed by the group of European BRICS-like countries discussed in the previous section, mobilizing domestic capital and labor for industrialization, was not available to settler countries. Nevertheless, in the second half of the 19th century these countries’ economic performance benefited from several developments. One was a decline in the costs of ocean transport, mainly due to the introduction of iron-hulled ships and the development of refrigeration. These innovations sharply reduced the costs of transporting bulky cargoes to the developed countries and enabled the settler economies to expand their exports to include perishable products such as meats, fruits, etc. At the same time, the rapid growth of European industrial output increased demand for raw materials while the rising incomes in Europe increased the ability of European workers to purchase imported food products.

As Table 2 shows, the five settler economies differed in their starting per capita income levels; nevertheless, they shared the same challenges and economic characteristics. Perhaps the quintessential settler economy was Argentina. In 1870, at the start of the period we examine, its per capita GDP was less than 60% of that of the most advanced settler economies. By 1913, Argentina’s per capita income was 78% of the leaders, meaning that it was, in many respects, an advanced economy of that time. This may be somewhat surprising because, today, Argentina’s per capita income is less than one-third of that of the United States, but, as Carlos Diaz-Alejandro wrote:

“… Most economists writing during the first three decades of the (20th) century would have placed Argentina among the most advanced countries - with Western Europe, the United States, Canada, and Australia. To have called Argentina “underdeveloped” in the sense that word has today would have been considered laughable. Not only was per capita income high, but its growth was one of the highest in the world.” Diaz-Alejandro (1970)

Figure 2 bears out Diaz-Alejandro’s assessment. Between 1870 and the eve of World War I, Argentina had the fastest growth rate of all the settler economies. Initially, the country exported hides and grains and, later, beef. However, domestic growth came largely from inflows of capital and labor from abroad. Between 1890 and 1913, immigration, mainly from Italy and Spain, accounted for nearly one-half of the rapid growth of the population. It is important to bear in mind that this source of population growth consisted of prime-working-age individuals as well as of women of prime child-bearing age. Thus, the impact of immigrants on output and on future population growth was larger and more immediate than were the contributions of the growth of the native population. Argentina also depended on foreign financing for the rapid growth of the capital stock in infrastructure and industry. Over much of the period under review, domestic saving did not much exceed 5% of GDP; the remainder was financed by loans and direct

Table 2. The Settler Economy BRICS: 1870, 1913, 1920 and 1939 per capita GDP in 2011 US$?

<table>
<thead>
<tr>
<th>Country</th>
<th>1870</th>
<th>1913</th>
<th>1920</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2514</td>
<td>6505</td>
<td>5949</td>
<td>7105</td>
</tr>
<tr>
<td>Australia</td>
<td>4292</td>
<td>8380</td>
<td>8491</td>
<td>11159</td>
</tr>
<tr>
<td>Canada</td>
<td>2894</td>
<td>7026</td>
<td>6386</td>
<td>8110</td>
</tr>
<tr>
<td>South Africa</td>
<td>1681</td>
<td>2397*</td>
<td>2421**</td>
<td>4275</td>
</tr>
<tr>
<td>United States</td>
<td>3736</td>
<td>8101</td>
<td>8485</td>
<td>10459</td>
</tr>
</tbody>
</table>

*1909 **1918

Source: Boltet al. (2018) and Maddison Project Database, version 2018.
investments, largely from London. As a result, about one-half of the Argentine capital stock was foreign owned during this period.

Also evident from Figure 2 is the large effect of World War I on Argentine economic growth. A large part of this was due to the decline in the inflows of capital and labor. London ceased to be an exporter of capital, and migration declined because the War had reduced Europe’s population surpluses. There were also endogenous reasons for Argentina’s failure to continue to catch up to the more advanced countries. As in other settler economies, open land for the extension of agriculture was disappearing, and the inflows of capital and urban labor had been creating domestic industries, thus altering the structure of the economy. As a result, Argentina had increasingly become a more industrial and urban economy than an agrarian one, and this required new policies, such as protection for nascent industries, and a shift in political power toward the urban proletariat and capitalists. Argentina failed to adjust to this change in resource endowments both economically and politically. On the economic side, Argentina sought to continue with its old development model of expanding agricultural exports and importing manufactures and relying on inflows of capital and labor from abroad for its growth. This model, however, was unsustainable both due to conditions abroad and to the growing industrialization of the country and the expansion of an industrial, and urbanized, labor force. Despite a boost from the commodity boom of the 1920s, the country experienced virtually no growth between the start of World War I and the start of World War II. This lack of policy response to changing economic conditions resulted from a stranglehold on political power by agrarian interests, the reaction to whose policies then launched the country on the path to the populism of the Peron regime and to the precipitous decline of the economy (Alston and Gallo, 2010).

The other settler economy that failed to catch up was South Africa. In part this was due to a form of a resource curse caused by the discovery of rich deposits of diamonds and gold, whose production and exports dominated the economy without creating many forward or backward linkages to other sectors of the economy. Moreover, the influx of fortune seekers in the wake of the gold discoveries led to conflicts between the Boers and the British that hampered...
development. The indigenous population of South Africa proved more resistant to the incursion of foreign settlers both in terms of its greater resistance to the diseases that the settlers brought with them and also because the indigenous people had a social structure that enabled them to offer greater, but ultimately unsuccessful, resistance to their marginalization by the colonists. This, the Boer Wars and their aftermath, and the attachment of the Boers to agricultural pursuits, hampered the development of an industrial labor force, the adoption of new technologies and large-scale industrialization.7)

In contrast, Australia, Canada and the United States maintained high rates of growth throughout this period despite the shocks of war and the Great Depression. This is because, as capital and labor became more abundant in these countries, both their model of economic growth and their politics changed to adapt to their transition from a settler economy to an advanced industrial one. Each, to various degrees, came to rely more on domestic sources of capital accumulation and population growth, reducing their reliance on immigration and capital inflows. They also managed, like the successful economies studied in the previous section, to adopt the most advanced technologies and thus to accelerate the growth of total factor productivity. In the process, they ceased to have the characteristics of settler economies and came to share those of developed industrialized countries. Moreover, in the course of outgrowing their settler-economy characteristics, the locus of political power shifted from landowners to urban workers and owners of capital, allowing for economic policies that better suited the changing structure of the economy.

2.4 Lessons from Two Generations of BRICS

The experience of the two groups of BRICS-like countries examined so far is consistent with Gerschenkron’s theory of economic development. Backward countries did feel a tension between their economic performance and that of more advanced countries, and they overcame this backwardness by means of capital accumulation and the adoption of the most advanced technologies. In the successful European countries and Japan, institutional innovations helped to facilitate the financing of investment from domestic sources, and, in the settler economies, the innovation consisted of heavy reliance of foreign capital. In all successful economies, but especially in the settler economies, increases in income equality were important as well because they increased domestic saving and also facilitated human capital formation. While countries such as France and Germany were able to achieve advanced-economy status relatively quickly, others, such as Japan and Imperial Russia and some of the settler economies required a longer period of rapid growth, which left them more vulnerable to exogenous shocks such as wars, civil unrest, etc.8)

In each of the two cohorts of BRICS-like countries, two out of five failed to catch up with the leaders. Nevertheless, I do not believe that this high failure rate supports the middle-income-trap hypothesis. In all four cases of failure to catch up, there were clear policy mistakes, or an inability to develop substitute institutions for capital accumulation, or global forces that accounted for the shortness or weakness of the needed growth spurt. Moreover, in the successful countries, there does not appear to be, at some intermediate stage of development, a pause or reversal in the rapid growth spurt that carried these countries to advanced-country status.

Finally, it is worth noting that the ten countries examined thus far had no interest in reshaping the international economic order. They neither sought changes in the institutions of global finance, namely the predominance of London as the world’s financial center, nor in the relatively free movement of goods, capital and labor in the global economy. Rather than seeking a change in the way the global economy functioned, these countries sought ways in which they could participate in it more fully and more advantageously. Their rush for colonies was one example of this. Rather than seeking to undermine the existing network of investment and trade between Great Britain and its colonies, the European BRICS-like countries wanted to acquire their own colonies. These efforts did lead to political conflicts among the great powers as France and Germany sought to challenge British predominance in Africa, Japan acquired Taiwan and Italy fought a war with the Ottoman Empire to seize the latter’s African possessions. Of the settler economies, only the United States became a colonial power. Australia, Canada and
South Africa remained colonies of Great Britain and thus did no colonizing on their own.

3 Today’s BRICS

Today’s BRICS share many features with the previous two groups of countries studied. By virtue of their size, they are important to the global economy, all except Russia and South Africa being among the ten largest economies in the world; they lag the most advanced countries in their per capita incomes, and all of them, in different ways, aspire to greater prominence in global politics. There are also key differences. The first is that, as Table 3 shows, the BRICS economies are so-called upper middle-income countries or, in the case of India, lower middle-income. Thus the “relative backwardness”, to use Gerschenkron’s term, of the BRICS is greater than was the backwardness vis a vis the most advanced countries of the previous groups of BRICS-like countries we have examined. This has some advantages for the BRICS because there are many higher-productivity technologies that they could adopt to increase their productivity growth, and the feeling of tension regarding the gap between themselves and the more advanced countries can serve as motivation for the needed institutional innovations.

Table 3. Today’s BRICS: per capita GDP current US$ and population (mil.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>8860</td>
<td>208</td>
</tr>
<tr>
<td>Russia</td>
<td>9710</td>
<td>144</td>
</tr>
<tr>
<td>India</td>
<td>1680</td>
<td>1268</td>
</tr>
<tr>
<td>China</td>
<td>8250</td>
<td>1372</td>
</tr>
<tr>
<td>South Africa</td>
<td>5490</td>
<td>54</td>
</tr>
</tbody>
</table>

Source: https://www.worldbank.org/en/country/mic/overview

The greater degree of backwardness also presents some challenges. The period of rapid growth of the BRICS will be relatively longer than it was for the other economies studied in this paper if they are to catch up with the advanced countries, with attendant risks of unforeseen shocks to the growth process. Their greater backwardness may also mean that some advanced technologies may be out of their reach due to shortages of skilled workers or to inadequate infrastructure. Finally, it is noteworthy that two of the five BRICS countries, Russia and South Africa, were included among the BRICS-like countries that we analyzed in the previous section of the paper. These countries failed in their catch-up effort then, perhaps due to barriers to growth that remain to this day, and the possibility of their convergence to the more advanced economies thus remains in doubt.

Figure 3 shows that China and India had growth rates over the period examined that consistently outpaced the growth rate of the United States economy, which I take as the advanced country standard. China has succeeded in basing its growth on high domestic saving rates and gains in total factor productivity. Initially, innovation depended on domestic efforts, but China’s opening up to the world has enabled it to combine domestically based innovation with the adoption of the most advanced technologies from abroad to give it a leading position in many branches of industry (Zilibotti, 2017). Indian growth is often attributed to reforms enacted in the late 1980s and early 1990s, but Figure 3 suggests that the onset of rapid growth preceded these reforms (Virmani, 2006). Although the Indian economy has become more open to trade and investment and the service sector has shown considerable dynamism, the lack of infrastructure and the need for more domestic competition make India’s growth spurt more fragile than that of China. Russia grew rapidly during the Soviet period, but then saw a collapse due to its rather unsuccessful transition to a market economy, and, since then, its growth has fluctuated in line with oil prices. The collapse of the Soviet system was similar to the collapse of the industrialization spurt of Imperial Russia in the 1890s, shown in Figure 1, and it also reflects a similar exhaustion of the population’s willingness to bear the burden of a development strategy based on state-led industrialization financed by excessive extraction and rent seeking. This suggests that Russia’s leaders will have to temper their efforts to stimulate another spurt of industrialization unless oil prices improve significantly. Brazil also showed higher rates of growth in the first half of the period than in the second. Brazil’s growth has been hampered by macroeconomic instability, corruption and an inability to move beyond a settler economy-like reliance on exports of agricultural products and raw materials. South Africa, too, retains many of its settler economy
characteristics and its relatively small domestic market makes import-substituting industries too small to achieve efficiency.

4 Where are the BRICS Headed?

The future of the BRICS countries will depend on their ability to sustain their growth spurts long enough to reach the per capita income levels of the most advanced countries. An important obstacle to continued rapid growth of the BRICS countries is demographic, due to slowing, or even negative, population growth in China, Russia and, to a lesser extent in Brazil. Only India and South Africa have growing working-age populations currently, and, even there, population growth is slowing. Declining and ageing populations not only reduce the availability of labor but also slow labor productivity as fewer new, and better educated, workers enter the labor force. Moreover, resources and government budgets will be shifted from growth-promoting activities such as education, research and development, etc. toward caring for an ever-larger ageing and unproductive population. Among the BRICS countries, the share of the working aged people in the population peaked in the 2010-2015 period and will steadily decline after that (United Nations, 2015), and, if present trends continue, population growth in the BRICS will cease completely by 2050.9

Another barrier to growth is slowing technological progress. The consensus in the literature (Bergeaud et al., 2016, Gordon, 2016) is that productivity, and especially productivity driven by improvements in technology, is slowing globally. Thus, over the long run, there will be fewer advanced technologies for the BRICS to adopt and their productivity growth will slow as well. While slowing technological progress will also affect growth in advanced countries adversely, lack of productivity gains worldwide must inevitably slow and draw out the catchup process for the BRICS.

The international economy also presents potential risks for the BRICS. Historically, international trade has grown more rapidly than global GDP, but this relationship has been less robust in the past five years or so. Trade policy uncertainty and the tariff policies of the United States have led to a decline in the volume of international trade in late 2018 and early 2019 for many countries (WTO, 2019). The BRICS have been
especially hard hit by these developments; China is engaged in a major trade dispute with the United States, Russia is subject to international sanctions and India has lost its ability to export to the United States under the lower General System of Preferences tariff rates and some of Brazil’s exports to the United States have been hit by higher tariffs. Moreover, the growth of international trade has been impeded by inadequate infrastructure such as a shortage of port facilities for ever-larger ships, limited rail capacity and rising fuel prices. Because the BRICS countries are heavily dependent on exports, the attenuation of export opportunities will slow their growth. Capital flows, which are important drivers of growth in those BRICS that are dependent on external finance to augment domestic savings, have stagnated in the past decade as well (Adams-Kane and Lopez, 2019).

Although China’s ability to continue to grow to become a high-income country seems the most secure, the other BRICS face considerable uncertainty regarding their ability to maintain rapid growth long enough to achieve the per capita income levels of the most developed countries. In addition to these uncertainties and the obstacles listed in this section, the BRICS will also face political challenges that must be addressed if they are to continue with their growth trajectories.

5 Politics and the BRICS

5.1 Internal Politics and Trade Policy in the BRICS

Catching up with the per capita incomes of the most advanced countries will entail changes in the factor endowments of the BRICS, just as was the case with the earlier countries that we discussed. Rogowski (1989) shows that such changes in factor endowments also produce changes in the political power of labor and of the owners of land and of capital. In a three-factor Heckscher-Ohlin economy, either one or two factors are relatively abundant, and the other factor or factors must be relatively scarce. Factors sharing relative abundance or scarcity will have common economic interests that will lead them to form political coalitions to promote policies that favor their economic interests. Abundant factors will favor openness of the economy to trade, while relatively scarce factors will favor protectionism. In the BRICS, whose incomes are not at the level of the most advanced countries, either labor or land or both are the relatively abundant factors, while capital is, in all of them, the relatively scarce factor.

Further convergence of the BRICS toward the economic levels of high-income parties will require, as it did in all of the other countries we have examined, the accumulation of capital so that the BRICS will become relatively capital abundant. Table 4 shows that this long-term process will create different factor endowments among the BRICS. China and India are labor abundant, but land and capital are relatively scarce. Thus, the two countries rely on exports of labor-intensive products, and labor has been the politically dominant factor of production. Achieving developed-country status will require sufficient capital accumulation to make capital also a relatively abundant factor of production. Thus, in the long run, there will be a conflict between the interests of landowners and agrarian interests on the one hand and a coalition of labor and capital on the other. As labor and the owners of capital begin to prevail politically, this will lead to policies that favor industry, such as China’s “Made in China 2025” industrial policies. In India, a similar shift in power in favor of urban over rural interests is evident in the electoral success of the Bharatiya Janata Party (BJP), which favors pro-free market policies, over the Congress Party, which is more closely aligned with rural interests. In the short run, the political ascendancy of labor and the owners of capital will be, to some extent, blocked by the slowing of international trade described above. If the effects of this slowdown are big enough, they will have a negative impact on the emerging political influence of the coalition of owners of capital and of industrial workers, and the latter may then agitate for protectionist and populist policies to shield themselves from economic hardship.

Table 4 also shows that Brazil, Russia and South Africa have the same relative factor endowments as did the settler economies. They are relatively abundant in land and natural resources, and labor and capital are scarce. Consequently, they rely on exports of raw materials and agricultural products. If they succeed in approaching the income levels of the advanced countries, they will become abundant in both capital
and in land, which should then lead to a coalition of property owners that would outcompete labor for political power. If owners win out over workers, the result could be an economy based on rent seeking by property owners and the relative impoverishment of workers. In the short run, trade headwinds would result in labor’s and capital’s pressuring for protectionist policies, leading to an Argentine type of populism.

To sum up, long-run changes in factor endowments should lead all the BRICS counties to opt for a trade regime that has low barriers to international trade, although the consequences of such a change for domestic politics will differ between China and India on one hand and Brazil, Russia and South Africa on the other. In the former countries, a coalition of urban interests, workers and the owners of capital, will have an advantage over rural interests. In the latter, it will be property owners who will form a coalition against labor, which will remain a relatively scarce factor of production. If the global economy continues its trajectory towards higher trade barriers, workers in China and India will call for populist policies to sustain their recent gains in income while the other BRICS countries will pursue more protectionist trade policies. These differences in domestic policy pressures will make it more difficult for the BRICS to present a united front toward global discussions on international trade.

5.2 The BRICS and the Global Economic Order
Although some observers believe that the BRICS want to change the institutions of the global economy in some fundamental way, our analysis of the behavior of past BRICS-like counties as well as the interests of the BRICS countries themselves suggests otherwise. Because the success of the BRICS in moving toward developed-economy status means that they would become capital-abundant countries exporting capital-intensive manufactures, both their short-term and long-term objectives lie in maintaining the tariff system that has been established under the GATT and the WTO. As countries that will be breaking into established markets for manufactures and competing with developed-country companies, they have to be concerned about the possibility of retaliation or import restrictions by developed countries that will face the increasing volume of imports of manufactured products from the BRICS, and the current system of multilateral tariff reductions, MFN treatment, and trade dispute resolution should provide them with some protection against such retaliation.

The BRICS do need to consider the future of the global economic order because the main pillars of that order are being or have been undermined by the United States. One element of that system was the system of fixed exchange established at Bretton Woods. This pillar was destroyed in 1972, when President Nixon abandoned the link between gold and the US dollar. This ushered in a period of floating exchange rates, which, in many ways, provided the world with a more flexible and trade-friendly monetary regime. However, flexible exchange rates for the major currencies had to co-exist with fixed parities for the currencies of some developing countries as well as with the possibility that countries could manipulate the value of their currencies by means of interventions in the foreign

<table>
<thead>
<tr>
<th>Table 4. Relative Factor Endowments in the BRICS Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current factor endowments</strong></td>
</tr>
<tr>
<td><strong>Current economic activities</strong></td>
</tr>
<tr>
<td><strong>Development to advanced economy status</strong></td>
</tr>
<tr>
<td><strong>Long-term results</strong></td>
</tr>
<tr>
<td><strong>Short-term results</strong></td>
</tr>
</tbody>
</table>
exchange markets and though the use of domestic monetary policy. This has resulted in the so-called currency wars between China and the United States, with effects on other BRICS, most notably Brazil, as well.

The other pillar of the global economic order was the WTO trade system, with multilateral tariff reductions, most-favored-nation treatment and a mechanism for the settlement of trade disputes. While this system was cumbersome and slow in its decision making, there existed a general expectation that countries would not unilaterally raise tariffs to address bilateral trade imbalances or to redress what they saw as unfair competition. Recent measures by the United States in raising or threatening to raise tariffs on trade partners, China, Brazil, Canada, Mexico and the EU among them, have broken this tacit understanding among WTO members. The BRICS are particularly vulnerable to such a policy change precisely because of the rapid expansion of their involvement in international trade. Thus, at the 2018 meeting of BRICS leaders in Johannesburg, the BRICS voiced strong support for the WTO system, as they did in 2019 at the G-20 meeting in Osaka. It remains to be seen how much progress the BRICS can make in this direction, but it seems that the BRICS are, at the least in their statements, supporters of the current global economic system even as their emergence as economic powers places that system under increasing strain.

6 Conclusions

I have argued that the economic trajectory of the current BRICS countries reflects many of the characteristics of the growth of earlier economies that were close to, but not at, the level of the most advanced counties. The countries that succeeded in catching up did so through a sustained growth spurt and through the accumulation of capital and the adoption of the most advanced technologies. There were cases where the growth spurt failed, in part due to poor policy choices and in part due to the failure to change the model of development from one of acquiring capital and labor from abroad to one of relying on domestic savings and expansion of the labor force to sustain growth. Successful catch up with the most advanced countries also changed factor endowments, making capital a relatively abundant factor, causing it to join with the other abundant factor to shape the policies of the country.

In the light of historical experience, the ability of the current BRICS to catch up with the most advanced countries varies; China is best placed to do so, Russia and South Africa, having failed to catch up in the past, are in danger of failing again. The BRICS-like countries that I examined did not seek to upset the global economic order as they gained economic strength even though their emergence as major players in the global economy created political tensions between them and the more advanced countries. The same is true for the current BRICS, who stand to benefit from stable monetary relations and a liberal trading system even as their economic emergence puts that system under greater strain.

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Notes

1) See also Hopewell (2017).
2) Another consequence of these social changes was an upsurge in colonialism. There was a certain logic to this, since productivity gains in industry at this time were closely tied to economies of scale. Colonies expanded markets, thus accelerating gains in productivity. Unfortunately, this effort to gain colonies was mostly an economic failure. Most of the attractive colonies already belonged to Great Britain, leaving the other countries to undertake costly efforts, including wars, to obtain colonies that had little economic value.
3) The Credit Mobilier eventually failed, but not before its innovative lending to businesses forced other French banks, which had been engaged mainly in floating loans to governments, to begin financing investments in railroads, factories and capital equipment.
4) The middle-income trap refers to low-income countries that experience a spurt of growth that raises their per capita income somewhat, but then peters out before they can reach the per capita income levels of the most developed countries.
See Glawe and Wagner (2016) and Bulman et al. (2017) for discussions of the phenomenon.

5) It should also be noted that the economic performance of the settler economies I examine was bolstered by major gold discoveries in each of them except Argentina, leading to random but large upward shocks to their growth rates.

6) The dating of the beginning of Argentina’s slowdown is controversial, but the answer to whether it occurred before the onset of WW1 or not would shed some light on the relative roles of exogenous shocks and endogenous developments in the slowdown. See Sanz-Villarroya (2005).

7) The rapid post-depression growth of South Africa was due to its extensive gold production and the abandonment of the gold standard and devaluations of many advanced economies, which raised the value of the gold mined in South Africa.

8) Nevertheless, looking at the historical record, it is evident that the effect of exogenous shocks was not always decisive. For example, France recovered quickly from the effects of the Franco-Prussian war despite heavy reparations and the loss of territory, and Russia rebounded from the effects of the Russo-Japanese war and the subsequent civil unrest. Exogenous economic forces such as the Great Depression and the end of World War I impacted growth in the short run, but they did not seem to change the growth trajectory of countries in the long run.

9) Some of the BRICS countries are countering slowing population growth by improving the skills of new entrants to the work force. China is making the most notable efforts, as university enrolments have been increasing by over a million students each year.

10) In this respect, China’s Belt and Road initiative can be seen as a useful effort to deal with some of these bottlenecks in global trade.

11) I note that two of the BRICS, China and Russia, are de jure or de facto communist or post-communist countries. How this affects the expression of the political interests of capital is discussed in Brada (1991, pp. 220-223).

References


