



CHATHAM HOUSE

Chatham House, 10 St James's Square, London SW1Y 4LE
T: +44 (0)20 7957 5700 E: contact@chathamhouse.org
F: +44 (0)20 7957 5710 www.chathamhouse.org
Charity Registration Number: 208223

Transcript

Ten Years of BRIC Life

Jim O'Neill

Chairman, Goldman Sachs Asset Management

Chair: Paola Subacchi

Research Director, International Economics, Chatham House

20 January 2012

The views expressed in this document are the sole responsibility of the author(s) and do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author(s)/ speaker(s) and Chatham House should be credited, preferably with the date of the publication or details of the event. Where this document refers to or reports statements made by speakers at an event every effort has been made to provide a fair representation of their views and opinions, but the ultimate responsibility for accuracy lies with this document's author(s). The published text of speeches and presentations may differ from delivery.

Paola Subacchi:

Good afternoon. I'm pleased to see that we have a full hall today, and this proves the popularity of our speaker. And I believe we have also another full room somewhere on this floor. So I don't think I need to introduce Jim O'Neill, because I think he's so popular, thanks largely to the BRICs, which was his invention about ten years ago. In fact actually, I think Jim, you probably don't mind if I say it, you are the father of the BRICs with your team, because there is teamwork behind this concept. So Jim O'Neill is the Chairman of Goldman Sachs Asset Management, but he was the Chief Economist at Goldman Sachs at the time of the BRICs paper.

We are all familiar with this acronym. It's Brazil, Russia, India, China. And it's a new way to look at the emerging market economies. This acronym was created in 2001 in a paper published by Goldman Sachs Economic Research. It was actually a seminal paper, a paper that probably wouldn't earn a PhD in economics to the Goldman Sachs team, but it was very seminal, something that nobody in business or in academic economic research can afford to ignore.

So we all love the BRICs, or we hate the BRICs. There will be a lot of this paper and subsequent revisions, because I believe there was one in 2003 and then again...

Jim O'Neill:

That was the big one, actually.

Paola Subacchi:

Then it really launched a fierce and intense and very interesting debate on these countries. And again, is it the BRICs, is it the BICs... should we leave Russia now? Should we include other countries? Is BRICs a big sum, as somebody called this group of emerging markets? Should we add Turkey? Mexico? South Africa? Who is out, who is in? It really has been, over the last 10 years, this is what we have been debating. And also we've been debating the growth of the BRICs. And again, maybe the paper, the original paper was a bit simplistic in economic analysis.

Jim O'Neill:

I'm from Manchester.

Paola Subacchi:

So no offence, but certainly it was again, he put the accent on the right trends. And actually, in some way, I think it was at that time, he was thought to be overoptimistic, and again I like to remind you that that was after we had a couple of episodes of, again, successful stories turning into bubbles. One was Japan, and the other one was the Asian Tigers that ended up with the Asian crisis in 1997. So 2001 was very, very close for many people, many of us to say, well, are we confident that these growth trends are actually accurate.

And I must say that in some of these predictions, turned out to be very conservative, especially for China. And I conclude, and I'll leave Jim to talk more about the BRICs, by saying then that this was a seminal paper, a seminal concept. It's something which put a structure around a concept, and everybody found it was there. It was intuitive. We knew then there was something going on in the emerging markets. We knew then the world was changing because of the fall of the Berlin Wall, because of globalisation, economic integration and so on.

But we couldn't really pin it down. And so Jim O'Neill and his team actually pinned down this concept, so there is a lot to congratulate. And to finish, I think there is a book here, which I don't know what it's about, because I haven't read it yet, except the introduction which talks about Jim's trip to the Himalayas, which I found very fascinating. So Jim, it's over to you, now.

Jim O'Neill:

Thank you Paola. It's an honour to be here to reflect on the ten years of BRICs and the future. I had expected beforehand that I was going to stand there for half an hour and show you some pictures, but Paola in her wisdom and experience of doing these things thinks it would be more interesting if we just sort of chat and then have some questions. But what I thought I'd do is just say a few things at the outset and then drag me off wherever you want to go, really.

The first thing I should say is I must apologise to you that I'm about four hours off a flight from New York, so if you see me nodding off, it's because it was a particularly brief flight – there was a big tailwind so we got here an hour faster than normal. Any of you that fly back from New York occasionally know that it's not really a flight one can typically get much sleep on in any case, and this one was particularly bad.

The second thing I would say to provoke you, and you're all here in this great establishment, whilst I was in New York the past four days, I happened to

notice one of my emails involving something that came out of, I think it's called the City Spy section of the *Evening Standard*, which apparently there was some gossip about an event that I think was here on Tuesday, where there was a number of people banging the table for Russia out of BRIC, I gather. And they picked up on the fact that I was going to be here this Friday and they wondered what Jim O'Neill would have to say about that.

And I will. Let me just say... I say that right at the front because it is the thing that always comes up, particularly in this country. And I happened to be at something at DFID last Friday morning, and it seems to be like a bit of a British mental disease, frankly in my opinion. 'We don't like Russia, so we're not going to treat it as being a serious place.'

Hopefully we'll get into this later, but whilst Russia has got lots of problems and lots of challenges, it is more than one percent of global GDP and on some of the numbers that we play around with, the increase in the dollar value of Russia's GDP in the decade ahead is probably going to be close to, if not more – we actually have it bigger, than the increase in the dollar value of the euro area's GDP. So if we choose to dislike Russia because of all these things and not want to have any engagement with them, it seems not to be a particularly smart thing for a country which has got the challenges that we have. So there is me on my soapbox about the Russia thing.

More broadly in the context of the broader aspect of what I've just said, the BRIC story has kind of changed my professional life because of many of the things you just said. And it's because it has become, it turned out to be so far much bigger than we thought it would be ten years ago. And by the way, that also includes Russia. Until we had the crisis in 2008, Russia was the one that was surprising us the most in terms of its GDP growth rate. And so if we would have been seen here back in 2008, it would have been extremely easy to pour cold water on those that think Russia doesn't belong in this exalted status. It is obviously for a number of reasons questionable.

But all four of them grew quite a bit more than we originally expected. And to highlight that, we had suggested that China could get as big as Japan by 2015. Of course it went sailing past it 12 months ago. I think again, with me being away, I haven't seen the exact details, but we've just had the final data for China's GDP for last year. I'm sure it will probably translate into just over \$7 trillion. So China is now much bigger than Japan.

And in many ways, at the time in 2001, the one that was regarded as most controversial was Brazil, not Russia. As I mentioned in the book, one of my fondest personal anecdotes was speaking at an event down in Sao Paolo. I

think it was in late 2003. It was to a huge event of about 1,000 people and the guy that introduced me and had invited me whispered in my ear, 'We all know here that the B is only there because without it there's no acronym.'

And that sort of, two years after, still was the typical mood. And ten years on, Brazil certainly has become bigger in dollar terms than Italy and according to some sources, I'm not quite sure how they know this until we get both countries' data, but it's conceivable they are now bigger than the UK in dollar terms. And we'd said that Brazil might be able to get to the level of an Italy not until after 2020. So of course Brazil has had a really quite successful period, too.

But let me go a bit further in the context of the current angst about the state of the world. I would put it to you, and people think it's very controversial but I've no idea why, what happens to what I now call the 'growth markets', which is the four BRICs plus some of the other large emerging economies that are more than one percent of global GDP – Mexico, Korea, Indonesia and Turkey – amusingly in the never-ending play on acronyms that I've dreamt up, people around the world are now calling that MIST, and suggesting I created it.

But we certainly suggested these four belong in a different status than other emerging economies, but we certainly didn't think of the phrase MIST. But those eight countries collectively this decade, on very conservative numbers, will see their dollar GDP increase by \$15 trillion, or in the context of how people in the West struggle and worry, more than twice the combined change in the GDP of the US and the euro area.

So what happens to these guys is way more important than anything that's going on in Europe. I find it quite astonishing as I travel around the world, as I do, the amount of time that conversation is completely dominated about Greece, and then with it all the rest of this remarkable mess over in Europe.

China, growing at what is now effectively \$1 trillion of GDP more every year, is effectively creating the equivalent of another Greece every four months. So you could wipe Greece off the map and within four months, China's created the economic value of another one. And in the broader context, in the year we've started... and again on quite conservative numbers, I'm assuming this decade, for all those that say China's a bubble, well I'm sure we'll get into that... we're assuming China will grow by 7.5 percent. So China is going to slow down.

But even with that, because it's now \$7 trillion, its global importance and that of the broader BRICs rises. And in the next 12 months, the four BRIC countries will be close to creating the equivalent of another Italy in 12 months.

So Italy is a big issue and it's a big country, and how that plays out is of much greater importance in my judgement than Greece. But again, people shouldn't exaggerate its global importance.

Let me say a couple of other things and then go off wherever you want to go, really. In writing a book – I know Paola you've done that, I'm not sure how many people in the audience have done this – I find it a very sort of... having a day job and trying to write a book is not a very nice experience. Although it gave me a new purpose of finding something to do on long international flights, which is where I actually did write by hand most of it.

But the only reason I did it was actually because I realised that my pals at Penguin would be very generous in supporting me, because any proceeds I get from it are all going to an educational charity I started with some friends of mine about 12 years ago called SHINE – Support and Help In Education. And that's the main reason why I've done it, because I knew it would be a complete pain in the backside. And so I wouldn't have done it unless I knew that I could have done this. SHINE is a charity that gives effectively VC type philanthropy to educational enhancement for the most disadvantaged kids in London and Manchester. Having seen the mess we had last summer, I think it's kind of needed. So that's why I've done it.

So I'll stop there. There's lots of hopefully controversial areas that will come up, and if I don't hear them from you or the audience, I'll raise them myself.