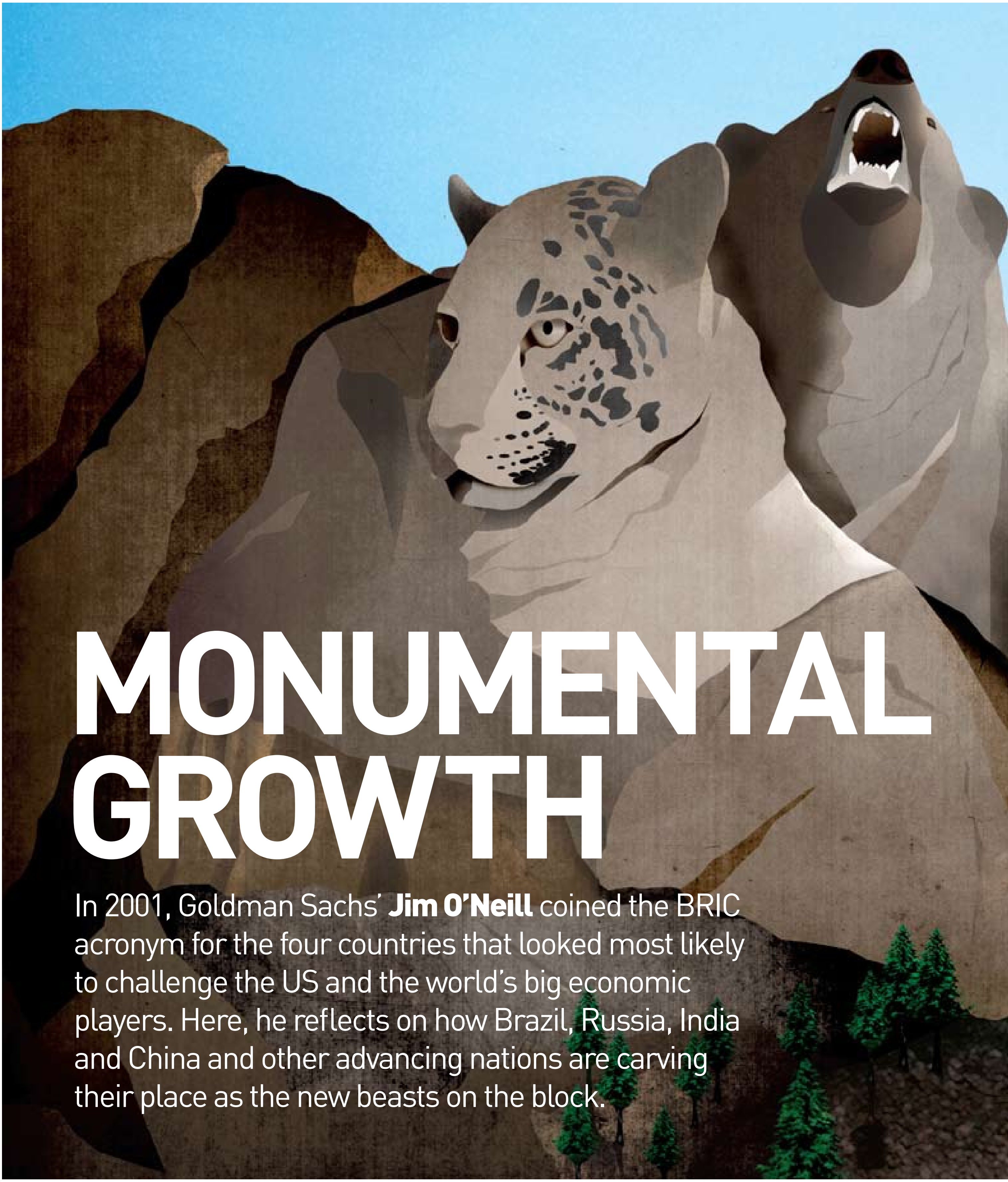


ILLUSTRATIONS BY BLACK COFFEE PROJECT

MONUMENTAL GROWTH

In 2001, Goldman Sachs' **Jim O'Neill** coined the BRIC acronym for the four countries that looked most likely to challenge the US and the world's big economic players. Here, he reflects on how Brazil, Russia, India and China and other advancing nations are carving their place as the new beasts on the block.

It is now almost a decade since Goldman Sachs introduced the BRIC acronym for the four countries that represent the most rapidly growing part of the global economy. Collectively, Brazil, Russia, India and China have reached 16 per cent of global GDP and will be as big as the US by the end of this decade.

Like the rest of the world, the BRICs have faced a severe crisis in the past two years, but, if anything, their current health suggests that our long-term projections are more, rather than less, likely to be realised.

Brazil, China and India have handled the crisis well. Russia, on the other hand, has struggled, but there is little reason why it should not still be regarded as a BRIC and it could still become bigger than Japan.

What seems clear is that the global credit crisis and its aftermath have caused more damage to the major developed economies than to the BRICs and the N11 countries, the 'Next 11' emerging economies[1]. Consequently, our projection that China could become as big as the US by 2027 – and the BRICs collectively as large as the G7[2] by 2032 – now looks more likely.

Overall, the BRICs and N11 saw much sharper contractions than developed countries, but they also saw much stronger rebounds. However, within the two groups, the differentiation in the magnitude and speed of rises and falls is extraordinary. A number of countries are already back at their pre-2007 levels on a number of metrics, while others are recovering more slowly. Brazil, China, India, Egypt, Indonesia and the Philippines, for example, have experienced a relatively mild slowdown and shown an impressive rebound in growth and activity. At the other end of the spectrum, Iran, Mexico, Pakistan and Russia have suffered, with deep recessions and a sluggish recovery.

GLOBAL CONTRIBUTION

The relative importance of the BRICs and G7 for the global economic landscape has changed dramatically.

> **"It is interesting to assess how our predictions have fared versus actual outcomes over time. Each of the BRIC countries has grown to a size we didn't expect to see until much later."**
> JIM O'NEILL

BRICS: POWERING INTO THE TOP 10

Where the four BRIC countries are ranked globally, out of 192 countries.

	Brazil	Russia	India	China
Population*	5th	9th	2nd	1st
GDP (nominal)**	8th	12th	11th	3rd
External debt***	26th	20th	25th	22nd
Exports***	21st	12th	23rd	1st
Imports+	24th	14th	15th	2nd
Vehicle production++	6th	19th	7th	1st
Number of mobile phones	5th	4th	2nd	1st

*World Monetary Fund figures, 2009
**The World Factbook, 2009. Second-quarter GDP figures published in August 2010 suggest that China has now overtaken Japan to become the world's second largest economy
***World Trade Organisation/The World Factbook
+Estimate, UN Department of Economic and Social Affairs, 2009
++Organisation Internationale des Constructeurs d'Automobiles

Between 2000 and 2008, the BRICs contributed almost 30 per cent to global growth in US dollar terms, compared with approximately 16 per cent in the previous decade. At the same time, the G7's contribution fell from more than 70 per cent in the 1990s to around 40 per cent during the first decade of the 21st century. The BRICs' contribution has risen particularly since 2007, with China contributing more than any of the advanced economies, including 'Euroland'.

The BRICs' share of global trade has continued to rise sharply and now stands at 13 per cent, almost two per cent higher than two years ago, with China accounting for almost two-thirds of the BRICs' share.

Interestingly, though, the N11 countries, South Korea and Mexico especially, are now more important for global trade than Brazil, Russia and India. Moreover, there are non-BRICs and non-N11 developing and emerging markets – including other countries in Africa, developing Asia, Central and Eastern Europe, the Commonwealth of Independent States (excluding Russia), the Middle East, Mongolia and the western hemisphere – that, collectively, still account for a larger share of global trade than either the BRICs or the N11.

Turning to interest rates in the BRICs and the N11, these have declined dramatically over the past two years, in line with other developing and advanced economies. In many places, they stand at all-time lows. Brazil, Russia and India have each cut their policy rates dramatically. The reduction has been less aggressive in China, where currency and other unconventional measures have played a bigger role in the easing of financial conditions, as they have in many parts of Asia.

This general easing episode marks the first time in history that many developing economies have been able to cut their policy rates in response to adverse external shocks. Previously, during such crises, capital outflows from emerging markets generally meant that local central banks had to hike rates to maintain financial stability. Such counter-cyclical monetary policies often put even more pressure on local economies, thus aggravating the original crisis.

WHAT'S THE SCORE?

Given the challenges that the BRIC and N11 economies and markets have faced over the past two years, has their potential to grow further and spread their dominance in a number of areas – including global demand for resources and spending patterns – changed? Has our original 'dream' of the BRICs collectively overtaking the G6[3] by around 2050 passed the test provided by this difficult environment?

Goldman Sachs uses a Growth Environment Score (GES) to measure the strength of a country's sustainable growth. It includes 13 variables and is an important driver of our assumptions for long-term productivity trends. Since its introduction in 2005, we have used the GES to track growth conditions in 180 countries, with a particular focus on key developing economies.

Technology, particularly the use of mobiles and the internet, has seen the largest gains and was the main category that consistently offset the deterioration in other components. Macro-economic conditions, which include gross fixed capital formation and openness, have also improved in the BRICs and N11, significantly exceeding the developed- and developing-country average. The BRICs made notable political progress, especially with respect to corruption and the rule of law. For human capital – including life expectancy and schooling – the N11 posted modest gains, while the BRICs made little progress.

The main setback occurred in the macro-economic stability category, which includes inflation, external debt and government deficit. Both the BRICs and N11 lost out by the same magnitude, far below the declines in developed and developing countries on average.

The major mover in the BRICs during 2009 was Brazil, one of the 35 best performers globally. Its gain was broad based across several components, with particularly strong advances in technology, mainly mobiles, as well as macro and political conditions.

China's GES improved mildly; like Brazil, gaining mainly on technology and political conditions, but it made no progress on human capital. A bigger government deficit, higher inflation and a lower degree of openness partially offset the improvement.

India's result declined modestly; it is now the only BRIC country whose GES remains below the developing-country average. Russia's GES has fallen by the same amount as India's, with most of the deterioration centred around macro-economic stability.

The overall GES improvement in the N11 was actually higher than in the BRICs. Eight countries posted gains, with Indonesia and Turkey advancing most on the back of developments across a number of components. Only inflation and government debt showed deterioration in both countries. If their scores continue to rise, we might have to consider them becoming part of the BRICs.

South Korea and Mexico still have the highest GES, although last year they saw the smallest increases in their scores. The areas of particular weakness in both were political conditions and macro-economic stability, while other categories posted modest gains.

Vietnam registered the biggest losses. Its deterioration in macro-economic stability pulled down its GES in 2009, mainly as a result of much higher inflation.

PAST PREDICTIONS

Since Goldman Sachs first published its BRICs growth and income projections in 2003, we have updated them four times. It is interesting to assess how our projections have fared versus actual outcomes over time. Each of them has grown to a size we didn't expect to see until much later. For example, although Russia's growth may be lower than predicted previously, it could still grow enough to overtake Japan – a move we did not foresee in 2003. And China, which is about to overtake Japan six years earlier than we first thought, may become as big as the US within 20 years. Brazil is poised to overtake Italy next year, and India and Russia are not far behind.

In the global car market, China will become the main driving force over the next decade, likely to account for almost 42 per cent of sales growth, with the BRICs together accounting for 70 per cent. And by 2050, India's car penetration could leap to around 490 cars per 1,000 people. This is more than 100 cars per 1,000 people higher than we estimated before. India could become the biggest auto market of the four by 2050.

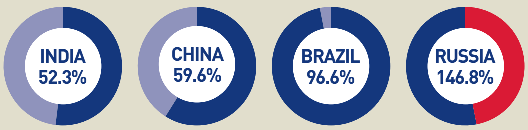
"The BRIC economies appear to have withstood the financial crisis better than developed countries. Indeed, their contribution to world economic activity has increased."
JIM O'NEILL

The energy market, and crude oil in particular, look likely to be influenced greatly by Chinese and Indian demand – especially in the next 20 years.

These days, energy markets are often dominated by the importance of China, which has committed to reducing its carbon intensity – the amount of CO_2 emitted per unit of GDP – by between 40 and 45 per cent by 2020, compared with 2005 levels.

MOBILE PHONE USAGE

Communications are improving in the BRIC countries. Brazil, Russia, India and China rank 5th, 4th, 2nd and 1st respectively on the list of number of mobile phones per country (with the US in 3rd), though that figure as a percentage of the population varies dramatically – from just over half in India to almost 150 per cent in Russia.



8.29 MILLION TONNES

China's iron ore imports from India in June 2010 – down 21 per cent month on month, as a result of lower demand and supply disruption resulting from the Indian monsoon season. China's total iron ore imports fell 14.7 per cent in June, although imports from Brazil were up one per cent.

According to Gerald Conway, co-chair of the China Council for International Cooperation on Environment and Development taskforce, the Chinese leadership has been presented with a plan that would reduce energy consumption per unit of GDP by 75 to 80 per cent by 2050. To achieve this, the plan envisages 50 per cent of new energy usage from now until 2030 coming from nuclear and renewable sources, and that all new power sources will be in these forms by 2050. In crude-oil terms, millions of the barrels-per-day projected globally might not occur.

If India were to commit to something similar, this would obviously be a very exciting initiative and stimulus for alternative energies.

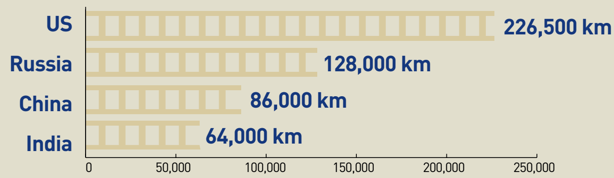
611 MILLION

Approximate number of vehicles expected on India's roads

by 2050

making it the world's leader of the automobile production industry. It is currently the seventh largest – and fourth largest in Asia, behind Japan, South Korea and Thailand – having produced 2.9 million units in 2009. Worldwide, only China, Taiwan and Romania increased in production by a greater percentage year on year than India in 2009.

RAIL TRANSPORT NETWORK SIZE



Only the United States has a rail transport network larger than Russia, China and India. Brazil is 10th in the global list, with a rail network of nearly 30,000 kilometres.

Primary source: International Union of Railways, 2007

BY NUMBER OF AIRPORTS

Rank	Country	Number of airports
1	US	15,079
2	Brazil	4,072
3	Mexico	1,819
4	Canada	1,404
5	Russia	1,213
6	Argentina	1,141
7	Colombia	990
8	Bolivia	881
9	Paraguay	800
10	Indonesia	684

Primary source: The World Factbook, 2010

CURRENCY AFFAIRS

Based on our forecast of higher oil prices, we expect rouble appreciation in Russia, as export revenues would increase, encouraging capital inflows.

In the near term, we believe two other BRIC currencies will appreciate through 2011. In India, as growth and inflation pick up, we expect the rupee to appreciate on the back of an effective tightening in policy rates in 2010. Meanwhile, the 'fair value' of the Chinese yuan has appreciated the most against the dollar since 2000, primarily owing to productivity gains, and our current forecast is that the yuan will be allowed to appreciate by five per cent over the next year.

The Brazilian real is the exception. We expect it to start depreciating for three reasons: the current account deficit could widen rapidly; investors will likely worry about potential changes in the macro-economic policy framework ahead of the presidential elections this October; and uncertainties relating to the tightening of monetary policy in advanced economies.

Over a longer-term horizon, we would expect currencies to converge with purchasing power parity (PPP) estimates. As the BRICs grow over the next few decades, and productivity and terms of trade improve, we expect their currencies to converge with PPP and continue to appreciate.

In conclusion, while the 2007-2009 financial crisis has been a major challenge for the world economy, the BRIC and N11 economies collectively appear to have withstood the crisis better than many of their developed-country counterparts.

Indeed, their contribution to world economic activity has increased even more through the crisis, and since. This is likely to continue in the near, medium and long term.

But the world's economy remains unpredictable. Lately, for example, there have been concerns that China is poised for a double dip, its economy having grown year on year by 11 per cent in the first quarter of this year, but more recent monthly data hinting at some flattening off. The stock market certainly supports this. After making solid gains in 2009, the Shanghai composite index has fallen by as much as 24 per cent since the start of the year.

The N11 countries, meanwhile, are a very diverse group, as we have always emphasised, at many different stages of development. We don't think any of them currently has enough justification to be considered as big as a BRIC, but some are showing encouraging signs.

Among many aspects of the world economic scene, the BRIC – and N11 – countries will become increasingly important and the upward trend we have seen this past decade will be even more pronounced. Judging by current escalations, by 2020 the BRICs' combined economy will have overtaken that of the US and could account for a third of the global economy in PPP terms. Individually, Brazil will be larger than Italy, India will be outpacing Spain, Russia will have charged ahead of Canada. While these developments will undoubtedly lead to many complexities and issues in the future, they are very exciting and offer considerable opportunities for us all. O

[1] *Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam.*

[2] *The US, the UK, France, Germany, Italy, Japan and Canada.*

[3] *The G7 (see [2]) minus Canada.*