EYE ON THE TIGERS

By Ashutosh Sheshabalaya

The BRICs report published in 2003 by Goldman Sachs – which foresaw the rise of Brazil, Russia, India and China as global economic powerhouses – has acquired the aura of a Delphic Oracle.

Nevertheless, it remains confusing with regard to some key assumptions and conclusions, particularly for policymakers.

The first problem is the heterogeneousness of the BRIC membership. Demographically, Brazil and Russia have a combined population of just 330 million – against 2.4 billion for India and China. Russia, by many accounts still a nuclear-armed superpower, is essentially an exporter of commodities to the West and of arms to China and India – which, in some cases, its own armed forces cannot afford. Russia is also ageing fast: 15 percent of its population is over 65 years old, against a mere 5 percent in India.

For its part, Brazil's growth is three to four times lower, and its income distribution far more skewered, than India and China. Indeed, the lack of a meaningful middle class is one reason for Brazil's stagnation, while its presence in India underpins the surprising spurt in its GDP growth.

More perplexing is Goldman Sachs' faith in the three-fold gap between Chinese and Indian GDP lasting for the next 25 years.

India has been far more efficient than China in moving up the global value chain. Its telecoms market is now the world's fastest growing. Outbound Indian acquisitions, ahead of China in both quality and scale, are another example. So too is India's absorption of private equity and venture capital. Foreign direct investment into India looks set to catch up with China early in the next decade. Last but not least is that gaping black hole: the stability of the authoritarian Chinese system.

All this may be overlooked. What cannot is the report's unquestioning faith in the continuity of the current global order.

To show precedents for the BRICs, the Goldman Sachs team turn to Japan and Germany's rapid growth after World War II. Such straight-line insight may well apply to Japan and Germany, or Brazil and Russia – for the ascendancy of countries with relatively small populations has little absolute impact elsewhere. To imagine this is true for India and China, inhabited by a third of the world's population (and sometime soon, half its workforce), is curious.

Here, I am not just speaking about the price of oil and raw materials, or some inevitable zero-sums in the world jobs market – especially at its newly disruptive, high-value, white-collar end.

A China with an economy half the size of the US, foreseen by Goldman Sachs for 2025, would be an unpredictable countercurrent in *Pax Americana*. One does not have to delve too far back for precedents: imagine Charles de Gaulle at the helm of a France with an economy three-and-a-half times larger.

Indeed, more meaningful parallels to the relative rise of China and India may lie in the displacement of an over-extended Britain in the early 20th century by the continental-scale, more youthful and populous United States. Such a shift was hardly straightforward.

Taking this analogy a step further is the end to the dominance of sterling and its replacement by the US dollar between the two World Wars. There is a parallel here too, in today's financing by Asia of the debt-ridden US and the likelihood that Asian savers will begin to see better uses for their money in China and India.

Devoid of the yardstick of the dollar, things look quite different – both within the BRICs, and for the world outside. For in purchasing power terms, China's economy is over twice the size of India's, while India's is larger than those of Brazil and Russia combined. More dramatic is the fact that the Indian and Chinese economies are together already equivalent to those of the US or the EU.

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Yet it will be some time before either the renminbi or rupee is ready to take on the mantle of the world's reserve currency. This, clearly, is not the case with the euro.

In some senses, therefore, the challenge for policymakers in Europe (as opposed to investors and stockbrokers) is simple: to find new ways to engage with China and India; and to invent a future less dependent on self-serving – and possibly very illusory – sermons from Wall Street.