

Jim O'Neill

Speaking on BRIC's and Beyond

Good morning, thank you for that very generous introduction Alistair; I must say it's a delight to be here in Jeddah. It's the first time I've been here in many years, and it's a pleasure to be back. And I'd like to thank the Jeddah Economic Forum for inviting me, also I'd like to say thank you to my wonderful colleague Hussam Radwan. In the same regard as some of you may know here, he's spearheading a more intensified effort of ours in the asset management world down here in Jeddah and I am sure he's very eager to meet all of you.

I guess I am going to try to show you a few pictures about three things related to not the exchange rate policy or outlook for the Saudi Riyal, but about BRICs and beyond.

So what I'll do is show you where we sort of stand on the BRICs since it'll play with the world. Secondly I will talk about life beyond the BRICs and then, I will thirdly say a couple of things of how I see how that is relevant to the gulf and Saudi Arabia, although I will not have any specific pictures related to that. And you'll see that within the three that is what I'm trying to say, very motion link to this wonderful idea of value creation through alliances and partnerships as you can see straight away from my summery the world is evolving so dramatically with the BRIC countries that in a sense we need to have much bigger alliances and partnerships involving the running of the world economy because just as much as there are a lot of new opportunities without a better coordination with a bigger role for lots of new players then life is going to get more and more challenging, and you can see that by the comments I make here, I'll try to show you and I think it's pretty straight forward that we are increasingly living in a BRICs influence world, with secondly where I think less people seem to be where they should. More and more large emerging market nations are stimulated by China both directly and indirectly and as I've already hence it out the current organizations that have established themselves as running the world economy in the past war era are losing there influence without some changes to those many of the current challenges, and we heard some hints of this indirectly from the vice governor just then. Challenges including energy never mind, exchange rates can not be resolved

without some kind of dramatic change in the whole monetary order of the world.

Let me start by showing you this picture of what the world looked like at the end of 2006, soon we will have everybody's days at the end of 2007 so we can show you that, and obviously as everybody knows the United States dominate super states with about 30 percent of global GDP and linked to my BRIC theme China is very nicely poised or was very nicely poised just behind Germany I suspect when we get data for the first part of 2008 we will find out that in fact China has over taken Germany. Saudi Arabia would be somewhere to the right of India in fact to be put all the GCC economists together. I guess the latest figures suggesting somewhere between 800 to 900 billion dollars, which would have it not that much behind India.

Link to the summery comment I made, here is a picture of how the demonism of the world of economy is changing, the yellow line shows you the share of the BRIC economies in global GDP growth, today it's about 15 percent since the early 1990s that is risen from 5 percent, so in the past 15 years the BRICs have increased their share of global GDP three fold.

The blue line shows you the BRICs excluding China which serves demonstrate that the "C" in the BRICs is particularly important and in fact China's size today is about six and a half to seven percent of global GDP is about the same as the other three BRICs put together. What is increasingly important in my opinion although not something that openly acknowledged to frequently by leaders from the west is much of the flip side of that is a decline in the share of global output by the G7 or from the G7, as you can see it is going from about 68 percent of GDP down to about 55 percent so much of the growth of the BRICs not surprisingly is coming from the expense of the G7.

I am seeing in a different way and this is of course critical to the issue of oil prices and the prosperity of Saudi Arabia and the gulf.

This chart shows you contributions to world economic growth so far this decade, the blue line shows you real GDP growth and the yellow line which I think is more important is what originate in terms of domestic demand from those different regions or areas of the world. And this is why some people such as our selves have taught for the past couple of years how the world is perhaps so cold decoupling because who else the U.S. has been the biggest contributor to global demand that around 35 percent of GDP what people have not fully appreciated is it about a third of all the global demand we have had so far this decade has come from

the BRICs and if you look to the left you can see specifically the contribution from China which remarkably has been nearly as big as that's the whole of the Euro zone countries put together.

China has contributed virtually as much as that France, Germany, Italy, Spain and the rest of the countries that make up the Euro zone together, and of course this is greatly why we are living in an environment today where despite the risks that the Dr. Greenspan talked about in the United States I think I heard him say a greater than 50 percent likely hope that we are already in recession despite that we have oil prices close to a 100 dollars and it's greatly because of China leading the BRICs. As a side note there, I'd also like to point out partly because they are very large oil producer of course, according to our numbers Russia has contributed slightly more to global demand so far this decade than India. This is of course why the BRIC concept has got so much attention in the business world, and let me spend a couple of minutes on these charts, this shows you what the world could look like, could in 2050 using simply two long term economic variables, let me also emphasize this is not we say, the world will look like in fact we never say what the world will look like, this is what the world could look like, based on countries achieving that pretension if you apply only two long term economic variables the size of countries working populations and the proactivity and if every the in unlikely event that's every country achieve it's proactivity potential this indeed would be what the world will turn out to be.

China would be 20 times bigger than it is today over taking the United States possibly sometimes between 20 and 30 years from now the United States doesn't look like it but relative to China will still do very well reflecting on some of the long term things that Dr. Greenspan applied about three time bigger than it is today.

India could be 50 time bigger than it is today cause it has an enormous labour supply dynamics which all patter than any body else of large nations, Brazil and Russia could be about 10 time bigger than they are today, and if you but all that together and every country achieve potential this is what the world would look like, and of course this is the call of the incredible dynamic which currently taking place in the world economy, despite the likely hoods which indeed our own view the U.S resent some sort of recession, the world economy is still going to grow by around three and a half per cent this year which will still for 5 per cent in the past four is above the average of the past 25 years, without China on the BRICs that would be impossible.

Many people naïvely assume that we are all naïve when they see that prediction and thinking that we believe the degree of boom in China of the past few years would go on but this table is design to show you that is not the case and if that's if n you just look on one statistics on this table down in the bottom right on corner we have assumed that China could grow by 5.3 per cent so about half what China was doing in the last two years and if China doesn't slow down it will over take the united state probably as soon as the next 20 years .

Many, many people have spent a considerable manner of time over the six year we introduce the predict idea say why brazil and Russia India and China and why not Indonesia why not Mexican why not Pakistan why not turkey and indeed why not Saudi Arabia on the gulf , and the answer is to become a big influence on the world economy you need to have a lot of people , and so about three years ago nearly now we under took an exercise to see what was the prick like potential for other large population countries , and of course in the middle east interestingly the country which has the biggest population is non other than Iran, and u can see out the circle next eleven countries of large population wants that potentials would be in this charge , so if you apply exactly the same kind of analysis and bring in the next largest eleven population countries of the world this is what the world could look like by 2050 you would still have it dominated by China India the U.S and then followed with brazil and Russia, but now Mexican would join and highly interestingly in my opinion today you would have the scope Nigeria to become between Germany and French and amazingly perhaps for many but very importantly for the middle east you could have Iran nestling in the as one of the top 20 economics in the world and it will be my suspicion very controversial thing about to say if would to have the current favourite front running of the democrats or puma as the next presidents it maybe an environments where is issue involving the running in the U.S starting to change , and we could see this different future .

Let me also point out if you're trying to figure out where Saudi Arabia should be on this and certainly for the GCC as a hole applying this analysis would suggests by 2050 a GCC economy of the potential of about four and a half truly in dollars which would be about six times bigger that it is today , which would be of course lead and dominated by Saudi Arabia .

Let me also go back to this chart briefly to point out the indirect issue that I mention about China the start , every body of course knows about

the important of China when it's come to oil , what I don't think people full appreciated in terms of globalization and the analysis being created through these partnerships is because of the facts China was lifted hundreds of millions of people out of poverty that is more and more by large margin market countries wanting to participate in globalization because they've seen that China could do so and keep the own basic social structure , so Alistaire when I was very intrigued when you quizzed Dr. Greenspan earlier about why nearly 20 years after the cold war finished we end with this peculiar world , my view on that is because that is the new world of globalization we have , and it is a world that has to learn to tolerate people with very different desires of social behaviour , and unless we can do that then we're not all going to be able to join the prosperity that we've been doing in recent years .

Let me say a couple of words about the conditions that are required in this incredible change to say place you need sounds stable macroeconomic policies would just a wonderful out line of how here in Saudi Arabia that's being done by central bank , you need strong and stable political institutions I suspect Dr. Greenspan would not agree with me on this one but you know that I do not use the phrase democratic it's not initially obvious to me particularly for large population development countries that democracies gives all advantages that are necessary for growth, and the contracts between China and India and that regard to my opinion is not to be dismissed , you do need to have very openly economist, and one of the common I almost heard this morning it was specially from the vice governor it's about the desire to have more open Saudi commodities is extremely important in order for the GCC nations to get toward the potential , and of course most importantly you need high and very broad level of educations but you do not need miracles , and in order to monitor the potentials of BRICs and the next level we developed something called a growth environment score a GEC score in which we include thirteen different variables some micros some macros and we score them from 0 to 10 and we use this to monitors the progress of these countries, and this a picture of what it looks like for the four BRICs in the eleven so code next eleven and you'll see the career scores not far of eight which in fact is the same is the score of Germany and the United States suggesting the career shouldn't even being regarding as a developing country.

what you can see in yellow is the change of these growth environments scores over the past decade and as you can see a very encouraging sign for much big a margin world most of them have shown a very

significant changes including places like Nigeria and including Iran , so maybe the BRICs dream is not just a pipe dream .

Let me leave you with a couple of other pictures to show how critical this is becoming more and more for the world as a whole and I am going to touch on a couple of issues that as typical on already has been raised. This is a picture of how the global energy picture will look using our BRICs prediction also of the thirty to forty years and you can see a very jagged specks but in assets what it shows between now and close to 2020.

Energy demand is likely to continue to be much strong than it was over much of the period since the first oil price crisis specifically we have grown on average by around two and a half per cent per year which compares with about one and a half percent in the period proceeding 2000 and that regard we generally believe that we are in the middle or less close to the middle parts of a very friendly period of global demand for commodities despite the fact of the U.S economics is so reactionary challenged.

Sorry let just me show you this picture as well, of course many people look at the BRICs predictions and focus at the environment issue and indeed I could show you many different pictures but just taking one here from the E.I.A as is well known on the current path China is gonna become the world biggest consumer of commodities very soon , but I often believe and this will be particularly interesting for many business people her , that could turn in to opportunity rather than necessary worrying as being as a problem and any of you that travelled to Beijing these days will know that the desire to have more environmentally friendly energies in order to help to susstain their own growth is riding rapidly at the forefront of policies in Beijing.

And then, lastly let me just leave you with my own twist on the interesting and never ending discussion typical of, to put it bluntly as I am a head of research of a western originating investment bank but one that is global, it is almost impressing the amount of nonsense being sent by western government about they are a natural consequence of the changing global economic picture .

Here is a chart of the world's biggest foreign exchange reserve holders , China was 1.4 trillion they do not need all those foreign exchanges for traditional purposes, and it's very wise for China to develop something like ... in order to a achieve higher returns.

Russia remarkably less than 10 years after the Russian crisis has found exchange 450 billion that is twice the total size of foreign exchange

held by the European central banks currently, and especially given Russia's aging demographic having a also makes an enormous amount of sense as it does in my judgement for my countries here in the middle east .

And so let me stop there and I am not sure if we're going to have time for questions , but in my judgment we are living in a remarkably changing era led by China the BRICs are transforming the world to have less dependence on the United States , it is a threat but also a fantastic opportunity for all those people who are open minded, and of course cyclically , or maybe super cyclically it is an enormous boom for oil producers like Saudi Arabia but most importantly in terms of making a listing positive transformation for Saudi Arabia and the gulf , it's important as the vice governor suggested the country develop more and become less focused on things like monetary and exchange rate policies and raises its growth environment scores .

Thank you very much for having me here.