

Why the 'R' Belongs in BRIC

By [Jim O'Neill](#)

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Another St. Petersburg International Economic Forum has passed, and I find my mind reflecting back on the 2008 forum.

At that meeting, I had been asked to lead the Russia discussions and provide a view as to how the country might look by 2020. With oil prices approaching \$150 per barrel, people were surprised that I wasn't optimistic. Many of the media present described my views as pessimistic and even suggested that policymakers would be annoyed that I didn't share the official hopes that Russia would be one of the world's top five economies by then.

While I thought Russia would be in the top 10 economies by size, I said it would be quite a challenge to get into the top five. In the discussion following my presentation, I tried to point out that nothing goes in a straight line, including oil prices, and it would be most unlikely for oil prices to repeat the seven-fold increase since I had coined the BRIC acronym.

We all know what happened to the global economy soon after the 2008 forum. Russia, in particular, had an extremely challenging 2009, and it is rather fashionable to regard Russia's future as bleak, even though oil prices have more than doubled from their early 2009 lows.

These days, I find myself being regarded as somewhat optimistic for Russia. It is quite easy to join the crowd and be pessimistic. It seems that I receive at least one e-mail every other day asking when I am going to finally take the “R” out of BRIC. I even have some policymakers from other aspiring developing countries asking me to swap the “R” with the initial of their country.

I tend to stick by what I said in 2008. Russia’s economy will probably grow 3 percent or 4 percent per year on average through 2020. There are downside risks, but I do see signs of upside risks increasing.

The key is to learn from the crisis and to not let it go to waste. In this context, I wonder more whether the global credit crisis, as bad as it was, might have been a good thing for many countries in the big picture. I think this is true for China, the United States and possibly even Russia.

By demonstrating so clearly just how vulnerable Russia is to a large and quick decline in oil prices, the country’s policymakers have moved to introduce policies to reduce dependency on oil and gas. This should be generously welcomed. In addition, there appear to be signs that policies to reverse the negative trend in the nation’s demographic decline are yielding some fruit.

Of course, Russia is not without challenges, and the business environment remains unwelcome for many foreign investors and businesspeople. They struggle to understand the manner of doing business and have little confidence in the legal system that might face them in the event of business disputes. Even here, however, it looks as though some policymakers are trying to change the environment. It will be interesting to gauge the response to forthcoming initial public offerings. If they go well, this will be very helpful.

Of course, the major issue that concerns everyone is who is going to run in the next presidential election. That is obviously an issue for the next 12 months, but once that is over, the deeper issues discussed above are more important.

On top of this, Russia will host the World Cup in 2018. For Russia it is an excellent opportunity to improve its infrastructure and the ease of travel. This would be a lasting legacy and a good opportunity for boosting the country’s productivity.

I had the pleasure of being in Moscow for the 2008 Champions League final in football. While the actual games passed without a glitch, travel to and from the airport was not as successful. As any frequent user of St. Petersburg’s Pulkovo Airport could vouch, the airport at Russia’s second-largest city could use a big upgrade. The contrast with China is staggering. Russia needs to use the World Cup to try to reach global transportation standards.

I follow the Growth Environment Score, or GES — an index of 13 different variables that I believe are key to sustainable growth and productivity. Among the BRIC countries, India has the lowest GES score, not Russia. Of other large emerging nations, South Korea has a very high score. Russian policymakers should study South Korea’s productivity performance and see what they might learn to help them further progress.

I am more convinced that Russia is showing important positive developments. Let’s hope they

continue.

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