

JIM O'NEILL GAME CHANGER

The man who invented the acronym BRIC talks about globalization, growth economies and the macro- and micro-economics of Manchester United Football Club

BY HEATHER MCGREGOR

How to label Jim O'Neill? The Chairman of Goldman Sachs Asset Management is warm, funny, down to earth, smart and above all else a Mancunian. Being defined by his geographical roots doesn't bother O'Neill; rather, he is very proud to come from Manchester, in the northwest of England.

Educated at a local state school in Burnage, the same neighborhood where Noel and Liam Gallagher of Oasis grew up, he then studied at Sheffield University and went on to get his Ph.D. at the University of Surrey in 1982.

O'Neill says that doing his Ph.D. was the best decision he ever made. "My friends said 'what are you doing a Ph.D. for?' But my father was so proud." O'Neill credits his father, a postman, with inspiring him to aim high. He says his thesis, *An Empirical Study of the OPEC Surplus and its Disposal*, wasn't an especially noteworthy piece of work but "it taught me how to work on my own for intensive periods of time. It was a real test of mental focus."

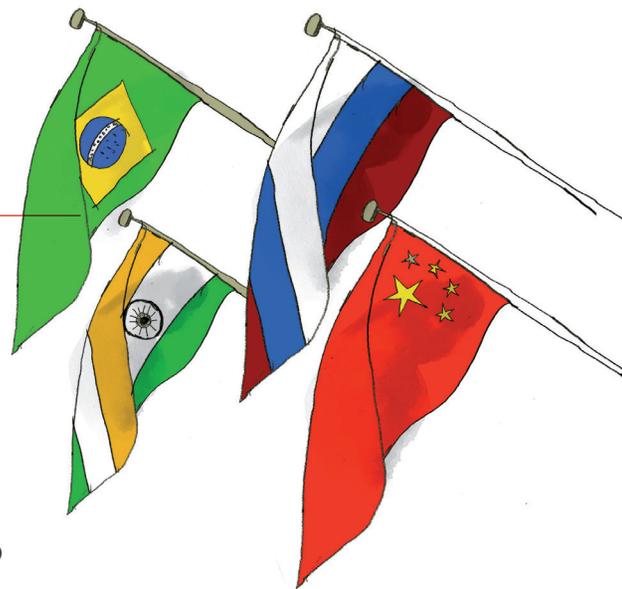
It is 10 years in November since he published *Building Better Global Economic BRICs*, the paper that was eventually to make him world famous. Can he remember why he set out to persuade the clients of Goldman Sachs that they needed to look further than the US if they wanted to invest in economic growth? It turns out that there were two powerful drivers, one micro and one macro, that drove the birth of BRIC as an acronym.

At the micro level, in the fall of 2001 O'Neill faced the departure of his then co-head of economics, Gavyn Davies, off to chair the BBC. Davies was a Goldman legend. He had been at

the forefront of the use of economics in the capital markets and helped to build the firm's reputation and presence in Europe in a big way.

O'Neill had been hired by Davies and had always looked up to him; now Davies was going and O'Neill would be heading Goldman's team of more than 80 economists around the world by himself. "Gavyn's brain is about 10 times the size of mine, so I was thinking, 'What do I do for people to think I'm capable of succeeding him?'" Davies and his original co-head of economics, David Morrison, had joined Goldman Sachs in 1986, and O'Neill pays tribute to how they changed the way economic research was done in the private sector: "They brought detail and rigor that was normally only present in government departments or academia, not in the brokerage world." Facing the empty shoes that Davies had left for him to step into, it is perhaps not surprising that O'Neill was looking for a way to make his mark.

During Davies' very last meeting with the managing directors of the Goldman Sachs economics team, with people all over the world dialed-in via the video conference system, something happened that would change the world forever, not least from a macro-economic perspective. The date was September 11 2001. Davies had said his farewells and left the room, but put his head back around the door to tell his colleagues that a plane had just hit the World Trade Center. O'Neill, who had been in one of the towers two days earlier, remembers that the meeting didn't realize at first the enormity of the situation. "We just carried on, in our own world," he says. 



WHAT'S IN A NAME?

The term BRICs has often been dismissed as a mere marketing tool, but the club of nations it refers to is one that many countries have yearned to join since Jim O'Neill first coined the term 10 years ago. BRICs is an acronym for the countries that he expected would be the world's four largest economies by 2041 (later revised to 2039, then 2032). He has resisted calls to add further countries to the original four – Brazil, Russia, India and China – chosen for a combination of their size, demographics, currency movement, global demand patterns and growth potential.

The BRICs have not formed a formal trading group like NAFTA or the EU, but have held summits and recently invited South Africa to join their political club. Yet by O'Neill's reckoning, with 0.6 per cent of world GDP and a population of under 50m, South Africa doesn't qualify as a BRIC economy. China has 9.3 per cent of global GDP (the US has 23.6 per cent)

while Brazil, India and Russia account for a further 8 per cent between them.

O'Neill recently told the *Financial Times*: "Any economy... that is already 1 per cent of global GDP or more, and has the potential for that to rise, has the ability to be taken seriously." Earlier this year, O'Neill added Mexico, South Korea, Turkey and Indonesia into a new grouping with the BRICs that he calls "growth markets." The criteria for this grouping is broader and includes GDP, corporate revenue growth and the volatility of asset returns.

Some labels have been slower to catch on, for example The Economist Intelligence Unit's "CIVETS", made up of Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. Other groups include "frontier" – or not yet emerging – markets, and O'Neill's own "Next 11" countries after BRICs: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam.

"Beyond the immediate horror of 9/11, I thought: this is the end of American-led globalization – 9/11 was so brutally violent, and it made me think that the way the countries of the world engage with each other had to change. Globalization in the future had got to be about shared – albeit complicated – leadership, not one country dominating the agenda."

And so BRICs was born. The concept (see box above) didn't take off for a while. "For the first two years people were saying, 'What's Jim going on about?' and there wasn't much take up. Then two guys in our team took what I'd

done and applied it to what the world could look like in 2050. That took off. A couple of global corporations said, 'This is the most influential paper,' and it snowballed." And the snowball is still rolling, having made him a truly global figure along the way. How does that make him feel? Has it changed his life?

"I don't know. It has given me idiotic amounts of credibility all over the world in a way that somebody like me never dreamed of." O'Neill says that it has made his position more effective – but more complex. "Managing my life is just chaos – every day I'm invited to at least eight places in the world, and I have to say no to virtually all of them." And how does he feel about having coined a label that has been taken up by the whole world? "I frequently feel embarrassed about it – it's just an acronym. What I am trying to do is to resolve this whole issue of defining a developed and an emerging economy."

"How can a BRIC country be considered 'emerging'? China, emerging? In some ways, socially, it is emerging, but so are parts of Manchester. I see cautious investors – pension fund types, especially from the US – who treat BRIC countries as risky. I have got to try and change the name of the game here. I am trying to get people to think differently. My definition

of a BRIC economy is a country that is materially influencing the world economy – that is either at 3 per cent of world GDP or is likely to become so.

"For countries that have at least 1 per cent of world GDP, we've got to call them something else – I like 'growth economies.' The 'Next 11' [see left] includes countries by population size. Nigeria is one of them, with a population constituting 20 per cent of the African continent. This is one of the most fascinating and stimulating aspects of my job. A Nigerian policymaker asked, 'What can we do to reach these economic indicators?' If they do, think how good that will be for Africa."

Would he have any advice for an emerging market? "I've had meetings with the Mexican Finance Minister who has asked, 'Why haven't you included us?' The South Africans are irritated too – they are in the BRIC political club but they've got to get their population up to qualify economically. Simple."

In benchmarking himself against Davies, O'Neill is far too modest about his own achievements. In 2005, he was considered by Davies to be "the top foreign-exchange economist anywhere in the world in the past decade." But O'Neill seems happy with the term "dirty" economist; not for him reams of refereed papers and intricately constructed econometric models. In his view, "Econometrics needs to be given a very limited role in life. The theory of it depends on economic assumptions and the data underpinning it can be terrible. Economics is a social science. So by definition, at least 40 per cent of what I say about economics isn't going to be true. Some economists believe that 100 per cent of what comes out of their mouths is right. It's ridiculous!"

And the future? O'Neill has been a partner at Goldman for 15 years, twice the average tenure. He recently moved to his role at GSAM. "Goldman Sachs is a fantastic place to work, right at the center of the global flow of capital. What I loved about what I did before, and what I hope to keep doing in this role, is to use all that to help countries to help themselves. How cool is that?" 🍷

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BEST FOOT FORWARD

Jim O'Neill is a reluctant superstar. "My closest friends remain people I met at school and university, none of whom work in the world of finance." What do they think about what he does? "They take the piss out of me."

He still uses public transport – the bus and the Tube – to get to work in London. "Most people in the office think I'm nuts but I think they're nuts. It's the most effective way to get around this colossal city. So many people in this industry don't connect with people in the real world. They are chauffeured to work, go to the best restaurants in town and then go home. And they think that's normal. I'm not having a dig, but a lot of people in this industry feel victimized and they need to understand what life is like for other people."

O'Neill has not been to the annual meeting of the World Economic Forum in Davos for four years. "I don't think my life is any emptier because I don't go," he says.

"Most economists are nowhere near as smart as they think they are. I used to be called a 'dirty economist' because I used to hang out with traders on the trading floor – I wanted to know what was going on in the real world."

O'Neill clearly loves his job, and praises Goldman for the resources the firm puts into economics. "We have built up proprietary indicators which are followed by a lot of people and are very useful. And you should meet the people I work with. The talent of some of these young people is astonishing."

O'Neill has always enjoyed both playing and watching soccer, and has been a passionate and committed Manchester United fan all his life, even serving as a non-executive director for a year before the club was taken private in 2005. Last year, he was a member of a consortium that considered bidding for the club. He admits that soccer is a subject he is very emotional about. "For me, a balanced life includes being able to watch Man U play and also to see my children." He describes the club as "a global brand of staggering size," and wherever he goes in the world, even where people can barely speak English, he says they have always heard of Manchester United.

As someone who has spawned a global brand himself, what in his opinion has driven this universal recognition? He cites three macro influences and three micro ones, all of which he says have given the club an incredible advantage.



On a macro level, O'Neill thinks the near-universal use of the English language, the UK's time zone ("I have always said that the greatest threat to London as a financial center would be if New York put their time zone forward by five hours") and the arrival of modern communications have all worked in the club's favor.

But the three micro factors are, in his opinion, just as important. The first was the soccer phenomenon known as George Best. "Best was the first real celebrity player – he was like a pop star. Every boy in Manchester when I was growing up wanted to be George Best." The second was another celebrity

player from a different era, Eric Cantona. "An eccentric, idiotic Frenchman [famously disciplined for a kung fu-style attack on a rival fan who allegedly racially abused and threw a missile at him]; but until he joined, the club hadn't won the league for 20 years." And finally, someone who is almost a global brand himself – Manchester United manager Sir Alex Ferguson.

"Football is truly the voice of the people," O'Neill says. As a sport it is open to everyone, whatever their socio-economic background. "You don't need money to play, just two feet."