The next two years 2001 and 2002 were weak. India's economy had become increasingly linked to the US and world economy. The bursting of the dotcom bubble in 2000 and the subsequent recession (from March 2001 to November 2001, but sometimes called the 9/11 recession) were two events that were part of a prolonged weak period in USA. Influenced by that weakness, India's growth fell below 4% in Fiscal Year 2002-2003, following earlier weakness. However, in the next year, a watershed for most emerging economies, India's growth roughly doubled to 8%. The Figure 6.a shows the rapid growth in India and the whole emerging economies group.

6.2 THE FIRST BRICS REPORT: SPEEDING ALONG THE GDP AUTOBAHN

Even before that year was over, the reputed investment bank Goldman Sachs came out in October 2003 with its landmark first report imaginatively titled, "*Dreaming with BRICs*." As is well known, the acronym BRIC stands for the four large emerging economies, Brazil, Russia, India and China. The term was coined by Jim O' Neill, head of Goldman Sachs Asset Management Company, in an earlier November 2001 paper titled "*Building a Better Global Economy with BRICs*". Much later in 2010 South Africa was added and thus the group name became BRICS.[3]

The BRIC report basically made long term projections of GDP growth for the BRICs *relative* to the G6 economies. The G6 refers to USA, UK, Japan, France, Germany and Italy. To limit their focus to those developed countries with GDP over $ 1 trillion, they deliberately left out Canada, part of the well-known G7 grouping colloquially called the Rich Man's Club,

To quote from the Summary of their first BRICs Report, titled 'Dreaming with BRICS', starting with its first sentence,

> "Over the next 50 years, Brazil, Russia, India and China – the BRICs economies -- could become a much larger force in the world economy...The results are startling. If things go right, *in less than 40 years, the BRICs economies together could be larger than the G6 in US dollar terms*. (Wilson and Purushothaman, 2003)

At the time of writing, the BRIC's GDP was a small fraction of US GDP. A clarification is needed here. Although not spelt out upfront, Goldman's analysis and forecasts are based on GDP in US dollar at market exchange rates, not at purchasing power parity (PPP) exchange rates.[4] Their Report predicted that as early as 2009, the BRICs annual

[3] This extension of the group to include South Africa entails grammatical confusion. The "s" in BRICs was originally small, often meant to be an apostrophe, but invariably written without it, as in the use of plural.

[4] If measured at PPP exchange rates, the BRICs would be much bigger since their PPP exchange rates against the US dollar, corresponding to their lower cost of living, are stronger. In PPP terns China is estimated to have overtaken USA somewhere around 2013 or 2014. Readers unfamiliar with the concept of PPP can refer to any standard textbook.

increase in dollar spending would exceed that of the G6 countries. It accordingly suggested that this shift represented a great opportunity for global companies, and recommended to its investors to choose the right emerging markets.

Based on their projected growth rates, the Goldman Sachs authors used an imaginative chart to demonstrate when the BRIC countries would catch up with and overtake the G6 countries. This can be called Goldman's *GDP autobahn* Chart (German word for freeway on which there are no speed limits). Specifically, they used an automobile icon to depict in which year BRIC economies' GDP would exceed that of G6 countries, individually and combined. Thus China was projected to overcome five of the G6 economies by 2016, and then to become the world's largest economy, overtaking USA, by 2041. India was projected to overtake Japan by 2032.

These projections were based on the standard Solow growth model. In this model, growth depends upon capital stock, labour force and technical progress. GDP growth is a sum of the projected growth rates of labour force, capital stock and (total factor) productivity due to technical progress (discussed in Section 1.3.2). Thus if labour input grows by 2% a year, machinery or capital stock grows by 1% a year, and say higher productivity from better machines raises output by 2.5% a year, then growth will be 5.5% a year.

It must be emphasized that neither the tone nor the specific projections of this first BRICs Report were wildly optimistic. To the contrary, they were quite cautious and subdued. Their Summary page stated that these projections assumed that policies supportive of growth would continue, but that there is a good chance, either through "bad policy or bad luck" that this does not happen.

India's growth was projected at 5.7% over the whole period, up to 2020 and then slowing to about 3% by 2050. The overall projections were not very far off from the IMF projections, as the Goldman authors themselves noted.

They also introduced a Growth Environment Score, i.e., an index based on the following five factors they considered crucial for economic development and captured by the acronym 'FORCE,' Financial deepening, Openness to trade, Rural-urban migration, Capital deepening and Education and environment.

6.3 THE SECOND BRICS REPORT: INDIA IN THE FAST LANE

As things turned out, growth was much higher than the projections, in particular for India. Following a vigorous 8% in 2003/04, for the next two years fiscal years 2004/05 and 2005/06, India's GDP grew unexpectedly by 7.1% and 9.5% respectively. This was the highest three year period of growth India had ever had until then. A huge spate of book, articles and conferences on emerging economies followed.

In January 2007, Goldman Sachs came out with their Second BRICs report. It took the view that India's high growth since 2003 was underpinned by a *structural rise* in