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Middle-income and developing countries

Crumbs from the BRICs-man's table

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Emerging powers have helped poorer nations weather the global recession

IN COLD-WAR days America and the Soviet Union vied for influence among the poor world's minnows. Now the BRICs—Brazil, Russia, India and China—are getting into the game, and changing it. This month, Sri Lanka got $290m from China for a new international airport and $67m from India to upgrade its railways. As poor countries emerge from recession and the rich world flounders, big middle-income countries see a once-in-a-generation chance to win friends and influence people.

The process is sometimes direct (through aid, trade, remittances, investment) and sometimes indirect (through commodity prices or competition in third markets, for instance). But it is always hard to pin down. None of the new donors (all of which, except Russia, still get aid themselves) publishes comprehensive, or even comprehensible, figures. But a new study* by the Overseas Development Institute (ODI), a British think-tank, says the emerging countries (such as the BRICs) increasingly affect the growth prospects of poorer ones. In other words, after decades of talk about the importance of "south-south" ties, those links have finally started to mean something.

China is now the largest donor to Cambodia and Sri Lanka. It has a huge list of pledges to Africa. In November the prime minister, Wen Jiabao, promised $10 billion of cheap loans over three years. China has also offered debt forgiveness, new hospitals, professional training for 15,000 Africans and a doubling of aid between 2006 and 2009 (though the accounting is so opaque that this is hard to measure).

When Sudan ran into trouble repaying its $34 billion foreign debt, it turned to China, India and regional development funds in the Gulf. India lags behind China, but has helped bail out Tanzania's financial institutions by offering special farm credit. Dirk Willem te Velde of the ODI reckons that these flows will soon become even more important. History supports that idea: Western aid tends to wane two to three years after any recession.

Trade and foreign direct investment (FDI) from the West are already falling and the middle-income countries are taking up the slack. While total FDI in Africa fell by about a third between 2008 and 2009, the flow from China soared by 80% (admittedly from a low base). Brazil says it has invested $10 billion on the continent since 2003. Since 2009, the BRICs' deals in Africa have become a flood (see table).

South-facing wall

BRIC deals (above $5m) in Africa since 2009

	Use	$m	Type
Brazil			
Angola	Oil	800	FDI
Nigeria	Oil	2,000	FDI
Mozambique	Mining	1,300	FDI
China			
Angola	Oil	1,300	FDI
Liberia	Mining	2,600	FDI
Tanzania	ICT, etc	180	Loan*
Zambia	Development	1,000	Loan*
Zambia	Stadium	10	Grant
India			
Chad	Textiles	25	Loan
Mozambique	Electricity	30	Loan
Malawi	Development	50	Loan
Zambia	Hydropower	50	Loan
Zambia	Social sector	75	Loan*
Russia			
Angola	Construction	500	FDI
Angola	Telecoms	328	FDI
Nigeria	Gas	2,500	FDI

Source: Overseas Development Institute *Concessionary

Similarly for trade: poor-country exports to rich countries have fallen much faster (down by 17% in 2008-09) than those to emerging markets (down by only 7%). In three-quarters of the poor countries that the ODI looked at, middle-income countries have increased their share of trade.

The blessing is mixed. Aid agencies dub China and others "rogue donors" because they give to—and prop up—beastly regimes. Chinese aid is also usually "tied" to hospitals, roads, and equipment built or sold by Chinese companies. And much "aid" is in fact loans at near-commercial rates. African governments have had their debts to the West mostly forgiven—and are piling up new loans elsewhere.

Such aid may also be a trap. The BRICs import raw materials like copper and cotton from poor countries; rich countries tend to buy manufactured goods such as garments. So more trade with the BRICs and less with the rich world is a step down the value chain—the opposite of what China did as it grew richer. Eswar Prasad of Cornell University says the voracious appetite for raw materials of China and India may help poor countries diversify their export markets but not their industry, leaving them more dependent on volatile commodities than before. They also suffer, he notes, from China's policy of depressing its exchange rate. That undermines their competitiveness and forces them to try to push their own currencies down.

This does not mean the BRICs have been, on balance, bad for the economic minnows. Without them, the global slump would have hit the world's poorest countries even harder. Deborah Brautigam, author of a new ... the BRICs' emergence as aid donors is as important for poor countries as ...tern Europe. But just as that event did not solve the region's problems at ...earch for good government goes on.

...ynthesis (phase 2)", by Dirk Willem te Velde, ODI.