2. Structural features and common characteristics of the Third world

2.1 Defining the Developing World

- The most common way to define the developing world is by per capita income. Several international agencies, including the Organization for Economic Cooperation and Development (OECD) and the United Nations, offer classifications of countries by their economic status, but the best-known system is that of the International Bank for Reconstruction and Development (IBRD), more commonly known as the **World Bank**.

- In the World Bank's classification system, 210 economies with a population of at least 30,000 are ranked by their levels of gross national income (GNI) per capita. These economies are then classified as **low-income countries (LICs)**, **lowermiddle- income countries** (LMCs), **upper-middle-income countries** (UMCs), **highincome** OECD countries, and **other high-income countries**. (Often, LMCs and UMCs are informally grouped as the **middle-income countries**.)
- With a number of important exceptions, the developing countries are those with low-, lower-middle, or upper-middle incomes. These countries are grouped by their geographic region

- The most common cutoff points for these categories are those used by the World Bank: Low-income countries are defined as having a per capita gross national income in 2008 of $975 or less; lower-middleincome countries have incomes between $976 and $3,855; upper-middle-income countries have incomes between $3,856 and $11,906; and high-income countries have incomes of $11,907 or more.

- high-income countries that have one or two highly developed export sectors but in which significant parts of the population remain relatively uneducated or in poor health for the country’s income level may be viewed as still developing. Examples may include oil exporters such as Saudi Arabia and the United Arab Emirates. Upper-income economies also include some tourism-dependent islands with lingering development problems.
- Even a few of the high-income OECD member countries, notably Portugal and Greece, have been viewed as developing countries at least until recently.

- the characterization of the developing world as sub-Saharan Africa, North Africa and the Middle East, Asia except for Japan and, more recently South Korea, and perhaps two or three other high-income economies, Latin America and the Caribbean, and the “transition” countries of eastern Europe and Central Asia including the former Soviet Union, remains a useful generalization. In contrast, the developed world constituting the core of the high-income OECD is comprised of the countries of western Europe, North America, Japan, Australia, and New Zealand.

- Sometimes a special distinction is made among upper-middle-income or newly high-income economies, designating some that have achieved relatively advanced manufacturing sectors as **newly industrializing countries (NICs)**.
- Yet another way to classify the nations of the developing world is **through their degree of international indebtedness**; the World Bank has classified countries as ***severely indebted***, ***moderately indebted***, and ***less indebted***.
- The United Nations Development Program (**UNDP**) classifies countries ***according to their level of human development***, including health and education attainments as **low**, **medium**, **high**, and **very high**

- Another widely used classification is that of the **least developed countries**, a **United Nations** designation that as of 2010 included 49 countries, 33 of them in Africa, 15 in Asia, plus Haiti. For inclusion, a country has to meet each of **three criteria**: ***low income, low human capital, and high economic vulnerability***.
- Other special UN classifications include landlocked developing countries (of which there are 30, half of them in Africa) and small island developing states (of which there are 38).

- Finally, the term ***emerging markets*** was introduced at the International Finance Corporation to suggest progress (avoiding the then-standard phrase ***Third World*** that investors seemed to associate with **stagnation**).

While the term is appealing, we do not use it here for **three** reasons.

- First, “emerging market” is widely used in the financial press to suggest the presence of active stock and bond markets; although financial deepening is important, it is only one aspect of economic development.
- Second, referring to nations as “markets” may lead to an under emphasis on some non-market priorities in development.
- Third, usage varies and there is no established or generally accepted designation of which markets should be labeled emerging and which as yet to emerge.

- The simple division of the world into developed and developing countries is sometimes useful for analytical purposes.
- Many development models apply across a wide range of developing country income levels. However, the wide income range of the latter serves as an early warning for us not to over generalize. Indeed, the economic differences between low-income countries in sub-Saharan Africa and South Asia and upper-middle-income countries in East Asia and Latin America can be even more profound than those between high income OECD and upper-middle-income developing countries.

2.2 Characteristics of the Developing World: Diversity within Commonality

- As noted earlier, there are important historical and economic commonalities among developing countries that have led to their economic development problems being studied within a common analytical framework in development economics.
- These widely shared problems are examined here in detail on an issue by-issue basis. At the same time, however, it is important to bear in mind that there is a great deal of diversity throughout the developing world, even with in these areas of broad commonality.
- This section examines the ***ten*** major areas of “diversity within commonality” in the developing world.

Lower Levels of Living and Productivity

- There is a vast gulf in productivity between advanced economies such as the United States and developing nations, including India and the Democratic Republic of Congo but also a wide range among these and other developing countries.
- Despite extraordinary recent growth in China and India, the low- and middle-income developing nations, with more than five-sixths (84%) of the world's people, received slightly more than two-fifths (41%) of the world's income in 2008.

- At very low income levels, in fact, a vicious circle may set in, whereby low income leads to low investment in education and health as well as plant and equipment and infrastructure, which in turn leads to low productivity and economic stagnation.
- This is known as a **poverty trap** or what Nobel laureate Gunnar Myrdal called "**circular and cumulative causation**."
- Further, the low-income countries are themselves a very diverse group with greatly differing development challenges

- Indeed, some star performers among now high-income economies such as South Korea and Taiwan were once among the poorest in the world. Some middle-income countries are also relatively stagnant, but others are growing rapidly—China most spectacularly. Indeed, income growth rates have varied greatly in different developing regions and countries, with rapid growth in East Asia, slow or even no growth in sub-Saharan Africa, and intermediate levels of growth in other regions.
- One **common misperception** is that low incomes result from a country's being too small to be self-sufficient or too large to overcome economic inertia. However, there is *no necessary correlation between country size in population or area and economic development* (in part because each has different advantages and disadvantages that can offset each other).

Lower Levels of Human Capital

- Human capital—health, education, and skills—is vital to economic growth and human development. We have already noted the great disparities in human capital around the world while discussing the Human Development Index.
- Compared with developed countries, much of the developing world has lagged in its average levels of nutrition, health (as measured, for example, by life expectancy or undernourishment), and education (measured by literacy).
- The under-5 mortality is 17 times higher in low-income countries than in high-income countries, although progress has been made since 1990

- The well-performing developing countries are much closer to the developed world in health and education standards than they are to the lowest income countries.
- Although health conditions in East Asia are relatively good, sub-Saharan Africa continues to be plagued by problems of malnourishment, malaria, tuberculosis, AIDS, and parasitic infections.
- Despite progress, South Asia continues to have high levels of illiteracy, low schooling attainment, and undernourishment. Still, in fields such as primary school completion, low income countries are also making great progress; for example, enrollments in India are up from 68% in the early 1990s to a reported 94% by 2008.

• Higher Levels of Inequality and Absolute Poverty

- Globally, the poorest 20% of people receive just 1.5% of world income. The lowest 20% now roughly corresponds to the approximately 1.4 billion people living in extreme poverty on less than $1.25 per day .
- Bringing the incomes of those living on less than $1.25 per day up to this minimal poverty line would require less than 2% of the incomes of the world's wealthiest . Thus the scale of global inequality is immense.

- But the enormous gap in per capita incomes between rich and poor nations is not the only manifestation of the huge global economic disparities.
- To appreciate the breadth and depth of deprivation in developing countries, it is also necessary to look at the gap between rich and poor ***within*** individual developing countries.
- Very high levels of inequality—extremes in the relative incomes of higher- and lower-income citizens—are found in many middle income countries, partly because Latin American countries historically tend to be both middle-income and highly unequal. Several African countries, including Sierra Leone, Lesotho, and South Africa, also have among the highest levels of inequality in the world

- Corresponding to their low average income levels, a large majority of the extreme poor live in the low-income developing countries of sub-Saharan Africa and South Asia. *Extreme poverty is due in part to low human capital but also to social and political exclusion and other deprivations*. Great progress has already been made in reducing the fraction of the developing world's population living on less than $1.25 per day and raising the incomes of those still below that level, but much remains to be done.
- Development economists use the concept of **absolute poverty** to represent a specific minimum level of income needed to satisfy the basic physical needs of food, clothing, and shelter in order to ensure continued survival.

- The incidence of extreme poverty varies widely around the developing world. The World Bank estimates that the share of the population living on less than $1.25 per day is 9.1% in East Asia and the Pacific, 8.6% in Latin America and the Caribbean, 1.5% in the Middle East and North Africa, 31.7% in South Asia, and 41.1% in sub-Saharan Africa.
- *Extreme poverty represents great human misery, and so redressing it is a top priority of international development*.
- Development economists have also increasingly focused on ways in which poverty and inequality can lead to *slower growth*. That is, not only do poverty and inequality result from distorted growth, but they can also cause it.

Higher Population Growth Rates

- Global population has skyrocketed since the beginning of the industrial era, from just under 1 billion in 1800 to 1.65 billion in 1900 and to over 6 billion by 2000. The United Nations estimates that the “day of 7 billion” will occur in late 2011 or early 2012. Rapid population growth began in Europe and other now developed countries.
- But in recent decades, most population growth has been centered in the developing world. Compared with the developed countries, which often have birth rates near or even below replacement (zero population growth) levels, the low-income developing countries have very high birth rates. More than five sixths of all the people in the world now live in developing countries.

- But population dynamics varies widely among developing countries. Populations of some developing countries, particularly in Africa, continue to grow rapidly. From 1990 to 2008, population in the low-income countries grew at 2.2% per year, compared to 1.3% in the middle-income countries (the high-income countries grew at 0.7% per year, reflecting both births and immigration).Middle-income developing countries show greater variance, with some having achieved lower birth rates closer to those prevailing in rich countries.
- In sub-Saharan Africa, the annual birth rate is 39 per 1,000—four times the rate in high-income countries. Intermediate but still relatively high birth rates are found in South Asia (24), the Middle East and North Africa (24), and Latin America and the Caribbean (19). East Asia and the Pacific have a moderate birth rate of 14 per 1,000, partly the result of birth control policies in China

- A major implication of high birth rates is that the active labor force has to support proportionally almost twice as many children as it does in richer countries. developed nations. Both older people and children are often referred to as an economic **dependency burden** in the sense that they must be supported financially by the country's labor force (usually defined as citizens between the ages of 15 and 64). In low-income countries, there are 66 children under 15 for each 100 working-age (15–65) adults, while in middle-income countries, there are 41 and in high-income countries just 26. In contrast, low-income countries have just 6 people over 65 per 100 working-age adults, compared with 10 in middle-income countries and 23 in high-income countries. Thus the total dependency ratio is 72 per 100 in low-income countries and 49 per 100 in high income countries.

- But in rich countries, older citizens are supported by their lifetime savings and by public and private pensions. In contrast, in developing countries, public support for children is very limited. So dependency has a further magnified impact in developing countries.
- We may conclude, therefore, that not only are developing countries characterized by higher rates of population growth, but they must also contend with greater dependency burdens than rich nations, though with a wide gulf between low- and middle-income developing countries.

Greater Social Fractionalization

- Low-income countries often have ethnic, linguistic, and other forms of social divisions, sometimes known as **fractionalization**. This is sometimes associated with civil strife and even violent conflict, which can lead developing societies to divert considerable energies to working for political accommodations if not national consolidation. It is one of a variety of governance challenges many developing nations face. There is some evidence that many of the factors associated with poor economic growth performance in sub-Saharan Africa, such as low schooling, political instability, underdeveloped financial systems, and insufficient infrastructure, can be statistically explained by high ethnic fragmentation

- The greater the ethnic, linguistic, and religious diversity of a country, the more likely it is that there will be internal strife and political instability. Some of the most successful development experiences—South Korea, Taiwan, Singapore, and Hong Kong—have occurred in culturally homogeneous societies.
- But today, more than 40% of the world's nations have more than five significant ethnic populations. In most cases, one or more of these groups face serious problems of discrimination, social exclusion, or other systematic disadvantages.
- Over half of the world's developing countries have experienced some form of interethnic conflict. Ethnic and religious conflicts leading to widespread death and destruction have taken place in countries as diverse as Afghanistan, Rwanda, Mozambique, Guatemala, Mexico, Sri Lanka, Iraq, India, Kyrgyzstan, Azerbaijan, Somalia, Ethiopia, Liberia, Sierra Leone, Angola, Myanmar, Sudan, the former Yugoslavia, Indonesia, and the Democratic Republic of Congo.

- Conflict can derail what had otherwise been relatively positive development progress, as in Côte d’Ivoire since 2002
- There is, however, a heartening trend since the late 1990s toward more successful resolution of conflicts and fewer new conflicts. If development is about improving human lives and providing a widening range of choice to all peoples, racial, ethnic, caste, or religious discrimination is pernicious.

- Ethnic and religious diversity need not necessarily lead to inequality, turmoil, or instability, and unqualified statements about its impact cannot be made. There have been numerous instances of successful economic and social integration of minority or indigenous ethnic populations in countries as diverse as Malaysia and Mauritius. And in the United States, diversity is often cited as a source of creativity and innovation. The broader point is that the ethnic and religious composition of a developing nation and whether or not that diversity leads to conflict or cooperation can be important determinants of the success or failure of development efforts

Larger Rural Populations but Rapid Rural-to-Urban Migration

- One of the hallmarks of economic development is a shift from agriculture to manufacturing and services. In developing countries, a much higher share of the population lives in rural areas. Although modernizing in many regions, rural areas are poorer and tend to suffer from missing markets, limited information, and social stratification. A massive population shift is also under way as hundreds of millions of people are moving from rural to urban areas, fueling rapid urbanization, with its own attendant problems.
- The world as a whole has just crossed the 50% threshold: For the first time in history, more people live in cities than in rural areas. But sub-Saharan Africa and most of Asia remain predominantly rural

Lower Levels of Industrialization and Manufactured Exports

- One of the most widely used terminologies for the original Group of Seven (G7) countries29 and other advanced economies such as smaller European countries and Australia is the “industrial countries.” Industrialization is associated with high productivity and incomes and has been a hallmark of modernization and national economic power. It is no accident that most developing-country governments have made industrialization a high national priority, with a number of prominent success stories in Asia.

- In developed countries, agriculture represents a very small share of employment and output—about 1% in the United States and United Kingdom—although productivity is not disproportionately low. And the share of employment in industry in these two countries, for example, is actually smaller now than in some developing countries, particularly among women, as developed countries switch to the service sector. An often suggested but controversial “pattern of development” is that the share of employment in industry begins to slowly decline (and the service sector continues to expand) after developed-country status is reached

- There is wide variation in activity by sector around the developing world. However, in most African and Asian countries, agriculture still provides a substantial share of employment, in some cases even a majority. In Latin America, the share of agricultural employment is smaller but still substantial. Along with lower industrialization, developing nations have tended to have a higher dependence on primary exports. Most developing countries have diversified away from agricultural and mineral exports to some degree.

- The middle-income countries are rapidly catching up with the developed world in the share of manufactured goods in their exports, even if these goods are typically less advanced in their skill and technology content. However, the low income countries, particularly those in Africa, remain highly dependent on a relatively small number of agricultural and mineral exports. Africa will need to continue its efforts to diversify its exports

Adverse Geography

- Many analysts argue that geography must play some role in problems of agriculture, public health, and comparative underdevelopment more generally. Landlocked economies, common in Africa, often have lower incomes than coastal economies. Developing countries are primarily tropical or subtropical, and this has meant that they suffer more from tropical pests and parasites, endemic diseases such as malaria, water resource constraints, and extremes of heat. A great concern going forward is that global warming is projected to have its greatest negative impact on Africa and South Asia

- The extreme case of favorable physical **resource endowment** is the oil-rich Persian Gulf states. At the other extreme are countries like Chad, Yemen, Haiti, and Bangladesh, where endowments of raw materials and minerals and even fertile land are relatively minimal. However, as the case of the Democratic Republic of Congo shows vividly, high mineral wealth is no guarantee of development success. Conflict over the profits from these industries has often led to a focus on the distribution of wealth rather than its creation and to social strife, undemocratic governance, high inequality, and even armed conflict, in what is called the “curse of natural resources.”

- Clearly, geography is not destiny; high-income Singapore lies almost directly on the equator, and parts of southern India have exhibited enormous economic dynamism in recent years. However, the presence of common and often adverse geographic features in comparison to temperate zone countries means it is beneficial to study tropical and subtropical developing countries together for some purposes. Redoubled efforts are now under way to extend the benefits of the green revolution and tropical disease control to sub-Saharan Africa

• Underdeveloped Markets

- Imperfect markets and incomplete information are far more prevalent in developing countries, with the result that domestic markets, notably but not only financial markets, have worked less efficiently, as examined .In many developing countries, legal and institutional foundations for markets are extremely weak.

- Some aspects of market underdevelopment are that they often lack

(1) a legal system that enforces contracts and validates property rights;

(2) a stable and trustworthy currency;

(3) an **infrastructure** of roads and utilities that results in low transport and communication costs so as to facilitate interregional trade;

(4) a well-developed and efficiently regulated system of banking and insurance, with broad access and with formal credit markets that select projects and allocate loanable funds on the basis of relative economic profitability and enforce rules of repayment;

(5) substantial market information for consumers and producers about prices, quantities, and qualities of products and resources as well as the creditworthiness of potential borrowers; and

(6) social norms that facilitate successful long-term business relationships.

These six factors, along with the existence of economies of scale in major sectors of the economy, thin markets for many products due to limited demand and few sellers, widespread externalities (costs or benefits that accrue to companies or individuals not doing the producing or consuming) in production and consumption, and poorly regulated common property resources (e.g., fisheries, grazing lands, water holes) mean that markets are often highly imperfect

- Moreover, information is limited and costly to obtain, thereby often causing goods, finances, and resources to be misallocated. And we have come to understand that small externalities can interact in ways that add up to very large distortions in an economy and present the real possibility of an underdevelopment trap .
- The extent to which these **imperfect markets** and **incomplete information** systems justify a more active role for government . But their existence remains a common characteristic of many developing nations and an important contributing factor to their state of underdevelopment

Lingering Colonial Impacts and Unequal International Relations

- **Colonial Legacy Many** developing countries were once colonies of Europe or otherwise dominated by European or other foreign powers, and institutions created during the colonial period often had pernicious effects on development that in many cases have persisted to the present day. Despite important variations that proved consequential, colonial era institutions often favored extractors of wealth rather than creators of wealth, harming development then and now. Both domestically and internationally, developing countries have more often lacked institutions and formal organizations of the type that have benefited the developed world: Domestically, on average, property rights have been less secure, constraints on elites have been weak, and a smaller segment of societyhas been able to gain access to and take advantage of economic opportunities

- **External Dependence** Relatedly, developing countries have also been less well organized and influential in international relations, with sometimes adverse consequences for development. For example, agreements within the World Trade Organization (WTO) and its predecessors concerning matters such as agricultural subsidies in rich countries that harm developing country farmers and one-sided regulation of intellectual property rights have often been relatively unfavorable to the developing world.
- More generally, developing nations have weaker bargaining positions than developed nations in international economic relations

2.3 How Low-Income Countries Today Differ from Developed Countries in Their Earlier Stages

- The position of developing countries today is in many important ways significantly different from that of the currently developed countries when they embarked on their era of modern economic growth. We can identify eight significant differences in initial conditions that require a special analysis of the growth prospects and requirements of modern economic development:

1. Physical and human resource endowments
2. Per capita incomes and levels of GDP in relation to the rest of the world
3. Climate
4. Population size, distribution, and growth
5. Historical role of international migration
6. International trade benefits
7. Basic scientific and technological research and development capabilities
8. Efficacy of domestic institutions

•We will discuss each of these conditions with a view to formulating requirements and priorities for generating and sustaining economic growth in developing countries.