
Classification of Developing Countries:

We began with the general classification of the countries of the world into three groups, First World Countries, Second World Countries and Third World countries. Then we discussed four more specific classifications. These are,

1. The U.N. Classification System: This is a classification of the Third world (developing) countries which were U.N members in 1992. The classification was based on per capita GNP and there were three major classes. These are,-
   1. “Least Developed”: 44 poorest members of U.N comprised this group, 2. “Developing Nations”: This class included 88 non-oil-exporting countries, 3. Organization of Petroleum Exporting Countries (OPEC): This group included 13 countries whose national income increases dramatically in the 1970s.

2. World Bank Criterion: This classification involves both developed and developing countries. 132 countries with population size larger than 1 million were classified into 4 groups according to per capita income. The classes are,-
   1. Low Income, 2. Middle income, 3. Upper-Middle Income, 4. High Income. 108 mostly developing countries fell in the first three groups while 19 developed and 5 developing countries fell in the High Income group.

3. UNDP Criterion: This classification by the United Nations Development Program is the most ambitious attempt to classify the countries of the world (both developed and developing). This classification was based on Human Development Index (HDI) rather than the per capita income criterion. HDI is a measure of development and in addition to per capita income it also incorporates longevity, measured by life expectancy at birth and knowledge, measured by a weighted average of literacy and mean years of schooling. The HDI criteria is superior to the per capita income criteria because it incorporates both economic and non-economic factors that determine the quality of life. There are three classifications based on this criterion. 1. High Human Development Countries (HDI ≥ .80), 2. Medium Human Development Countries (.51 ≤ HDI ≤ .79) and 3. Low Human Development Countries (HDI ≤ .50).

4. OECD Criterion: OECD stands for Organization for Economic Cooperation and Development. This criterion provided a classification of third world countries and included countries which are not in the U.N system. The Classifications are,-
   1. LIC (Low Income Countries), 2. MIC (Middle Income Countries), 3. NIC (Newly Industrialized Countries), and 4. OPEC (Countries belonging to OPEC). Note: Carefully study table 2.1 and make yourself familiar with countries which belong to NIC and OPEC.
Since there are about 145 countries which belong to the third world, it is understandable that these countries would be very diverse in terms of culture, economic conditions, social and political structures, etc. At the same time, since these countries all are developing countries, they sure would share some common traits. In order to study development, it is very important that we study the differences and similarities among the developing countries. In the process we should be able to identify some major characteristics, the presence or absence of which may help or retard development process. The majority of this chapter deals with the similarities and differences among the developing countries. (Note: You should thoroughly read this chapter. Later, when you would read the country studies, you should try to see if you can relate to what you have learnt in this chapter to what is being documented about those developing countries).

**Structural Differences Among Developing Countries:**
Developing countries are considered to be different from one another on 8 broad categories. These are,-

1. **Size of the country:** A country can be large in terms of its physical size, its population or by the level of its national income. When you study this subsection, try to identify the advantages and disadvantages of being large in size.

2. **Historical Background:** Try to understand why the colonial background of a country is important. Colonial rule usually has a large influence on the pre-existing institutions and culture of a colonized country. Some of these influences were good but some were very harmful. Once the colonial rule ended, it took a long time for the newly independent countries to find its own foot hold. Therefore, it is very important to know when a country has become independent or whether at any point of time it was under colonial rule or not.

3. **Physical and Human Resources:** The amount of physical resources, which includes land, minerals and other raw materials, available to a country can make a huge difference in the life style of its population. The countries in the developing world differ very much in terms of owning these physical resources. Not only this, they also differ a lot in terms of their human resources. Some countries may have a small but highly skilled, educated and innovative population. While some countries may have a very large but mainly very low skill population with very little or no education. Yet there can be countries which may have large population with average to high levels of skill and education.

4. **Ethnic and Religious Composition:** The more diverse a country is, in terms of ethnic and religious composition, the more will be internal strife and political instability. These internal strife and political instability can lead to violent conflicts and even self destructive wars which would cause waste of valuable resources which could definitely be used to promote other valuable development goals. E.g., Afghanistan, Sri Lanka, Bosnia, Zaire, etc. In general, the more homogeneous a country is the easier it is for that country to become successful in their development effort. E.g., Korea, Taiwan, Singapore, Hong Kong.
5. **Relative Importance of Public and Private Sectors**: The relative importance and size of public and private sector varies a lot in the developing countries. Countries where there are severe shortage of skilled human resources usually used to have large public sectors and state owned enterprises, on the assumption that limited skilled manpower can be best used by coordinating rather than fragmenting administrative entrepreneurial activities. The widespread failure of a number of countries with large public sectors to show any improvement at all, raised questions regarding the validity of these claims. Economic policies to promote same development objectives would be different in countries with different compositions of public and private sectors.

6. **Industrial Structure**: Developing countries also differ a lot in terms of the size and quality of their industrial structure. The size and type of the industrial sector depends on the policies adopted in the past which again may have to do a lot with the history of the country.

7. **External Dependence**: External dependence can be of economic, political or cultural in nature. Developing countries being mostly small and underdeveloped, have to depend a lot on the developed countries for trade, technology and training. The extent of dependence vary among countries and is influenced by the size, history and the location of the country.

8. **Political Structure, Power and Interest Groups**: The developing countries also vary in terms of the size of the vested interest group and its influence on the political power structure. Although interest groups are seen to be present in every society, most developing countries are ruled directly or indirectly by small and powerful elite to a greater extent than the developed nations are. Effective social and economic change thus requires either that the support of elite groups be enlisted or that the power of the elite be offset by more powerful democratic forces.

**Common Characteristics of Developing Nations:**
The similarities among developing countries can be classified into seven broad categories. These are,-

1. **Low Levels of Living**: Since the developing countries are poor, it is understandable that the levels of living would be quite low compared to the levels of living in the developed countries. It is, however, surprising to see the extent of the differences in living standards between a developed and a developing country. A comparison of the living standards between these two groups of countries is presented in the subsection of the book under the same heading. The difference in the levels of living has been portrayed in terms of Per Capita National Income (note: make sure to review the concept of “Purchasing Power Parity” and its advantage over “Exchange rate” in comparing living standards), Relative Growth Rates of GNP, Distribution of National Income, Extent of Poverty (Note: “absolute poverty” and “international poverty line” are important concepts with which you should become familiar), Health and Education. A measure of health is provided by infant mortality rate, population with consumption below caloric requirements and the nature and extent of human health
deprivation in the third world. (Note: information reflected by following tables and figures are to be noted.- Table 2.3, 2.6 and 2.7, Figures 2.4, 2.5, 2.6 and 2.7).

2. **Low Levels of Productivity:** Productivity of labor is low in developing countries. The reason being lack of physical capital (principle of diminishing marginal productivity) and the quality of labor. We also discussed idea of “circular cumulative causation” by Gunner Myrdal. Productivity of labor can be raised in two ways. First, by mobilizing domestic savings and foreign finance to generate new investment in physical capital goods and second, by building up human capital through investment in education and training.

3. **High Rates of Population Growth and Dependency Burdens:** Birth rate and death rate are both higher in developing countries compared to developed countries. This also contributes to high **dependency burden** in the developing countries. (Note: definition of crude birth rate and crude death rate are important).

4. **High and Rising Levels of Unemployment and Underemployment:** We discussed the difference between the reported unemployment figures and the actual unemployment situation in the developing countries. In the process we talked about *discouraged workers* and different ways in which a person can be underemployed.

5. **Substantial Dependence on Agricultural Production and Primary Product Exports:** Most developing countries have a very large agricultural sector and most of their exports are usually primary agricultural products. Agriculture is not only a profession but a way of life in the developing countries. The reliance on agriculture is a result of the subsistence nature of the rural economy in the developing countries. The type of agriculture in the developing countries is also very different from that in the developed countries. Agriculture in the developing countries is primarily small scale and highly labor intensive. Later in the course we shall categorically see the disadvantages a developing country would face when they try to specialize in the production and export of a primary commodity.

6. **Prevalence of Imperfect Markets and Incomplete Information:** The success of a developed market economy depends heavily on the existence of certain institutional, cultural and legal prerequisites. E.g., strong judiciary, clearly defined property rights, stable currency, infrastructure of roads and utilities, functional transport and communication system, free flow of information. While in the industrial societies most of these are taken for granted, in the developing countries a lot of these legal and institutional foundations are either absent or extremely weak. The result is misallocation of resources.

7. **Dominance, Dependence and Vulnerability in International Relations:** In international relations, the developing countries frequently have to deal with the rich and powerful nations. They have to depend on the developed countries for trade, technology, foreign aid and expertise. This dominance of the rich industrial nations and the dependence of the developing countries on them often leads to the adoption of inappropriate technologies, educational structures and cultural values in the developing countries. The influence of the rich lifestyle of the developed countries can lead to elite lifestyle, private accumulation of capital, brain drain and transfer of capital all of which retards economic development in the developing countries.
CASE STUDY: The Economy of Nigeria

Nigeria a former British Colony got its full independence from Britain in 1960. Nigeria is located in the West Coast of the African continent. It is also the most populous country in Africa. The population is divided in different ethnic and religious groups as a result the country always experiences ethnic, regional and religious tensions. Although originally Nigeria was an agriculturally based economy, during 1970s and 80s it went through profound changes. Now 90% of its exports come from the export of oil. “A combination of declining oil prices, overly ambitious industrialization programs, neglect of agricultural sector, excessive foreign borrowing, and widespread economic corruption and mismanagement during those decades caused the Nigerian economy to experience a prolonged period of economic stagnation and decline”. Neglect of agriculture and emphasis of industries also caused a massive movement of people from rural to urban centers creating a major problem of high urban unemployment.