Research Summary 36
Country Classifications for a Changing World
by Dan Harris, Mick Moore and Hubert Schmitz

This forthcoming (2009) paper is commissioned by the German Development Institute (GDI). Below is a summary of research findings. Further details of the Centre for the Future State's research is available at: www.ids.ac.uk/futurestate/

Introduction

The distinction between *developing* and *developed* countries has long been central to development studies and to debates on development policy. In earlier decades, it was in many respects accurate, and was for many purposes useful. Although the world is still very much divided between rich and poor countries, relationships among countries have changed so much that the *developing-developed* country distinction has become an obstacle to understanding current problems and opportunities and, even more, to thinking productively about the future. It is time to stop using it. This paper suggests an alternative approach to country classification based on state capacity.

The developed-developing country classification: origins and implications

Distinctions between the developed 'First' and developing 'Third' worlds enjoyed a high level of consensus in the 1950s and 1960s because they were based on objective reality, and were politically convenient. They reflected a wide income gap between rich and poor countries, and countries within each cluster shared common features including distinctive political and economic systems, rates of growth, and patterns of external relationships. The distinction between "donors" and "recipients" emerged in parallel with the developed-developing classification. It was underpinned by the idea of a tutelary relationship whereby donors (often with links to ex-colonies) had a responsibility to transfer resources, provide expertise on how best to use them, and use their influence within global institutions on behalf of developing countries. This relationship had its clearest expression in the emergence of the good governance agenda in the 1990s, and played a part in making the development debate aid-centric. It continues to shape the behaviour of Western donors.

New relationships require new challenges

Major political and economic changes since the early 1970s -- notably fast economic growth in Asia, the shift of power from Western governments and companies to oil-producing states, the end of the Cold War, and the impact of globalisation -- have blurred the old distinctions. An increasing number of countries are intermediate between developed and developing categories. They include a growing number of middle income countries as well as countries (notably India and China) that are both poor and powerful. Globalisation has led to much more economic specialisation and therefore differentiation within the category of developing countries. Geopolitics in the former Third World are no longer shaped by Cold War rivalries: this has contributed to the emergence of new regional powers; new divisions within sub-Saharan Africa between relatively stable regions, and those blighted by recurrent, resource-driven conflict; and growing aid dependence among the poorest countries.

These shifts have major implications for politics and governance, and undermine the utility of the developed-developing classification for the purposes of European development policy. Four outcomes in particular have had an impact on traditional donor-recipient relationships:

- *A more pluralistic global economy*: with wealth more widely distributed among countries, has given some 'anchor countries' new sources of geopolitical, economic and financial influence, and an increasing voice in international organisations. China has global influence and offers an alternative model of development, as well as alternative sources of private and public capital, especially in Africa.
- *West is not best*. Developed countries can no longer claim special competence in economic management, and promoting growth: the East is out-competing the West.
- *Niche rentier national economies*: economic specialisation has provided unprecedented opportunities for some governments to finance themselves by rents from oil and gas, property development, narcotics production and trade, licensing of offshore financial activities, and aid – rather than broad taxation.
- *Governance failures*: some governments do not exercise a basic level of control over their population and territory, and are embroiled in continuous armed conflicts.

A new approach to classification

A broad distinction between rich and poor countries, based on per capita incomes, continues to have some empirical validity and practical utility for development policy. But it no longer coincides with the (hugely changed) geopolitical and other relationships between countries. The recent proliferation of highly specialised performance rankings (for example TPI, World Bank governance indicators, Freedom House) has been driven by donor preoccupations and does not capture structural and relational changes in the real world.

A new classification that would help frame future European development policy needs to respond to two guiding factors:

- Aid is increasingly intertwined with other concerns about the impact of poor countries on the richer world, through global warming, illicit migration, narcotics, terrorism, piracy etc.
- It will be essential to work with newly powerful countries, because they are the source of some problems, or their cooperation is needed because they exercise regional influence over smaller, poorer countries.

While income levels still matter, two other axes of classification are suggested:

i) *External capacity of states to influence and work with other states*. This is captured in the concept of 'anchor countries' developed by the German Development Institute and beginning to be put into practise in the enlargement from the G8 to the G20. Anchor countries have been identified across 6 regions, based on the size of a country's GDP in relation to the GDP of its region -- and hence its potential to influence others. The approach is simple, relatively robust, and takes the development debate away from the old tutelary concept towards the concept of shared responsibility in a multi-polar world.

ii) *Internal state capacity*. The proposal is to use the source of government revenue as a basis for identifying states more or less likely to make effective use of aid and co-operate on issues requiring global solutions. Recent research suggests that governments that rely on taxation for revenue are more likely to interact with citizens and enterprises, have incentives and capacity to control their territory and people, and to invest in political/ bureaucratic capacity and public goods. Conversely oil, gas and mineral wealth generates economic and political 'curses' for recipients who have less incentive to build state capacity. The effect of aid is less clear cut but can also be disabling. Using sources of public revenue as a way of classifying countries requires more work but would help to steer the development debate toward the key issue of improving the quality of governance and thus strengthening the capacity of poor countries to help themselves.