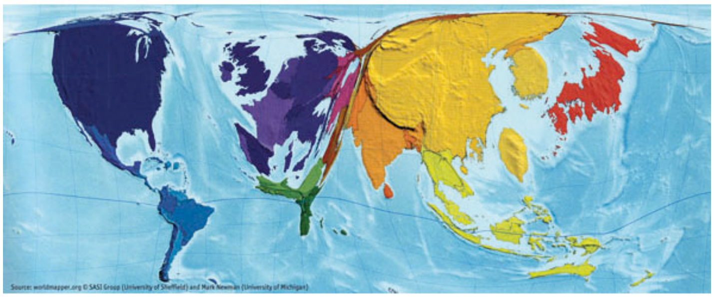
The Economist

Seeing the world differently

The poor world has changed fundamentally. Others are barely coming to grips with the implications

Jun 10th 2010



EARLIER this year, Bob Zoellick, the president of the World Bank, grandly declared that “2009 saw the end of what was known as the third world”—that is, the end of a distinct, separate section of humanity that is poor, aid-dependent and does not matter very much. Is he right?

Suppress, for a moment, the thought that the term itself went out of fashion long ago. This still seems a plausible time to consider the idea. While the rich world stumbles out of recession, Asia, Africa and Latin America are accelerating and contributing more than ever to world output. Two fast-growing countries, Turkey and Brazil (“powers of the future”, says Iran’s president), struck a deal in May that was intended to break the deadlock over Iran’s nuclear programme. Though less than meets the eye, the agreement was still an intriguing case of emerging-nation diplomacy. And the football World Cup gets under way this week in South Africa, arguably the poorest country to host the event.

Yet at the same time, Mr Zoellick’s bank is not in any danger of going out of business. Aid still flows. Last month Western donors were debating whether an increase of nearly $14 billion in aid to Africa over the past five years was enough. Whatever you call it, the category still matters (“third world” later became “developing countries” or “less developed countries”). It matters for trade, to non-governmental organisations and in the United Nations. Poor countries are treated differently under the UN framework convention on climate change, for instance, with fewer commitments to cut emissions. The European Union has a special trade and aid agreement with 79 poor nations. The world is still split between haves and have-nots (though the group of seven richest haves is now a group of 20 of them). Not surprisingly, many NGOs dislike Mr Zoellick’s assertion because, they fear, it will encourage Westerners to ignore poverty abroad.

In one sense Mr Zoellick is right to say the third world is finished—if 20 years late. The poor world is usually thought of as coming “third” after the first, capitalist West, and the second, communist East. Since the second one imploded in 1989, it seems past time to put to rest the nebulous and sometimes toxic third-world concept.

But the term third world did not originally refer to geopolitics. The first to use it in its modern sense was Alfred Sauvy, a French demographer who drew a parallel with the “third estate” (the people) during the French revolution. In 1952 Sauvy wrote that “this ignored, exploited, scorned Third World, like the Third Estate, wants to become something, too.” He was paraphrasing a remark by Emmanuel-Joseph Sieyès, a delegate to the Estates-General of 1789, who said the third estate is everything, has nothing but wants to be something. The salient feature of the third world was that it wanted economic and political clout.

It is getting both. Cold-war terminology implied that third-world countries had limited room for independent manoeuvre. They aligned themselves with one side, or got ground between millstones. That is changing. Walter Russell Mead, an American foreign-policy analyst, argues that Brazil and Turkey are both countries once within America's circle of influence where new leaders have challenged longstanding domestic elites and are trying to shake off their reliance upon America. In both cases their ambitions are global.

Developing countries are becoming something else, too: engines of the world economy. Since 2008, says the World Bank, they have contributed almost all of what economic growth there has been. In the 1980s they accounted for 33.7% of global income, at purchasing-power parities. This year, the share will be 43.4%. The map above shows how the world would look if country size were adjusted in line with the projected GDPs of countries by 2015.

For richer, for poorer

These trends have been going on a long time but the end of the great recession has speeded them up dramatically. Richer countries have not fully recovered: their income is still below what it was before the crisis. But in poorer ones—notably in Asia, the Middle East and Africa—income now exceeds pre-crisis levels by wide margins.

All this has—or should have—changed attitudes towards poor countries. The term "third world" used to mean poor and dependent. In the 1950s and 1960s a branch of economics even emerged called "dependency theory"; one of its most eloquent voices, Fernando Henrique Cardoso, became president of Brazil. Almost by definition, third-world countries were economic failures (successes, like the East Asian tigers, were seen as special cases). "Third world" countries often ran irresponsible fiscal and monetary policies and, even when growing fast, they still relied on the West for capital and markets.

One part of this picture is still true. The world remains binary. Over 1 billion people live on $1.25 or less a day, more than did when the term third world was coined. Many live in countries, like Brazil and India, that seem to have escaped from the third world. And 60 or so small poor countries retain third-world characteristics: aid dependency, corruption, violence. Alison Evans, the head of the Overseas Development Institute, a British think-tank, argues that it makes more sense to talk about the changing composition of the third world, rather than to make sweeping pronouncements about the whole thing.

Still, some generalisations are justified. Most developing countries have rejected populism. Now, it is rich countries that are running vast budget deficits. The IMF has said capital controls and industrial policy might work, after all. The economic mainstream has moved and it is no longer possible to distinguish between third and first worlds on the basis of economic policy.

Nor are emerging markets as dependent on aid from the West as they used to be. China recently agreed to finance oil refineries in Nigeria worth over $23 billion—nearly twice the total increase in aid to Africa over five years in one deal. Private flows to developing countries are worth three times official aid and Ngozi Okonjo-Iweala, a Nigerian former finance minister, thinks "it's high time Africa saw and presented itself as the fifth BRIC, an attractive destination for investment, not just aid."

The upshot is that it is no longer clear who depends on whom. Poorer economies still depend on Western markets: their slump at the end of 2008 showed that. But their recovery reveals that they are more resilient than they used to be, partly because their economic policies are better and partly because they trade more with each other and protect one another from the worst of rich-nation recession. Trade between developing countries, and between them and the BRICs, is rising twice as fast as world trade.

Even more strikingly, while growth has headed south, debt has headed north, the opposite of what happened in the 1970s and 1980s, when poor countries ran up vast debts. Gross public debt in rich countries is rising, from about 75% of GDP at the start of the crisis in 2007 to a forecast 110% by 2015, says the IMF. Public debt in emerging markets is below 40% of GDP and flat.

As a result, the prudent members of the third world are becoming safer places to invest than the profligate ones of the first. South Africa has a higher credit rating than Greece. Brazil, Indonesia, Turkey and Peru have all had their credit ratings upgraded this year. Those of the PIGS—Portugal, Ireland, Greece and Spain—have all been downgraded. Remarkably, the yield on ten-year government bonds is the same in Thailand as it is in America. Amar Bhattacharya, the head of the Group of 24 (a body of poorer countries), argues that the first world depends at least as much on the third as vice versa because the large and growing contribution to global demand and high returns in poorer countries are indispensable to rich ones in their attempts to return to growth and reduce debt.

In 1826 the British foreign secretary, George Canning, boasted that he had "called the new world into existence to redress the balance of the old." Now the third world has come into its own to redress the imbalances of the old. Canning and others also helped to transform the diplomatic architecture of Europe after the end of Napoleon. Far less has been done—in international financial institutions, in patterns of aid-giving and in diplomatic habits—to reflect the reality of the third world's end.

International

