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Country Classifications for a Changing World

Dan Harris, Mick Moore and Hubert Schmitz
May 2009

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Dan Harris, Mick Moore and Hubert Schmitz

Summary

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. Many alternative ways of categorising countries have been suggested. In recent years in particular, large numbers of organisations have begun annually to rank countries according to a wide variety of criteria: from economic vulnerability, bribe payers, competitiveness, digital access, ease of doing business, food insecurity, governance, and happiness to water poverty and welfare. These do not adequately capture the structural and relational changes that have occurred in our multi-polar world with substantially altered flows of ideas, resources and influence. Focusing on the needs of European policymakers, this paper suggests two axes for classifying countries. The first is the external capacity of states to influence and work with other states. This is captured in the (measureable) concept of 'anchor countries' developed by the German Development Institute and beginning to be put into practice in the enlargement from the G8 to the G20. The second is internal state capacity, as shaped by the sources of government income, in particular contrasting tax, aid, and oil. 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.

Keywords: development (general); country classification; country ranking; national performance indicators; donor–recipient relationship; taxation; state capacity; anchor countries; future of the world.

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Deutsches Institut für Entwicklungspolitik

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Executive summary

The central argument of this paper is that the currently dominant ways of classifying countries hinder the debate on development policy. They are an obstacle to understanding current problems and, even more so, to thinking about the future. This paper reviews the classifications that are currently in use and indicates alternative ways of grouping countries.

A key step in this undertaking is to specify ‘classification for what’? Different classifications are useful for different purposes. The issues addressed in this paper are derived from the bigger project into which it feeds. The Ministry for Economic Cooperation (BMZ) in Berlin has asked the German Development Institute (DIE) in Bonn to carry out a future oriented project: to identify the long-term trends in the international system that will shape the context in which development policy is formulated and implemented in the coming decades. What challenges will European development policy need to confront in 10 and 20 years from now? What will be the role of organisations such as the Department for International Development (DFID) in the UK or the Ministry for Economic Cooperation (BMZ) in Germany?

The original rationale for development policy in general and these organisations in particular was that there was a developing world which needed help from the developed world. But the division of the world into developed and developing countries no longer makes sense. Some developing countries have experienced the fastest sustained economic growth in history. Others have declined or fallen apart. In many cases, the relationships between countries have changed so much that the distinction between donor countries and recipient countries hinders understanding. European development policy is struggling to adjust to this new world, in which changes in the developed world are often driven by changes in the developing world, notably East Asia. The recent financial crisis, originating in the developed world, adds to the need to rethink relationships and ways forward. The debate on how to adjust to these new conditions and deal with the challenges of the future would be helped by better classifications.

The search for the new is helped by understanding the old. Section 2 of this paper goes back to the origin of the developed–developing country distinction. In the 1950s and 60s, this distinction was both convenient for all sides and broadly correct with regard to income and international relationships. The relational side found expression in the distinction between donor countries and recipient countries. The bilateral and multilateral relationships assumed in this distinction are laid out in Section 3 which stresses that there is a tutelary conception underlying these relationships. This conception has had a major influence on the actions and attitudes of government officials on all sides. Much of the development debate became aid-centric and the mind frame of many in the development business became neocolonial.

Section 4 then analyses why the old donor–recipient relationships have changed – notably over the last 20 years. The result is a multi-polar world with substantially altered flows of ideas, resources and influence. This new world is much more complex and difficult to capture in simple distinctions. This is one of the reasons why the old developed–developing country distinction continues to be dominant.

Another reason is given in Section 5 which suggests that, in terms of per capita incomes, the broad distinction between rich and poor countries continues to make sense even if the membership in the rich country group has increased. However, the income-metric and relational characteristics no longer coincide, underlined in the characterisation of China and India as 'poor and powerful'. But the spectacular rise of these two countries is just one of the reasons why we need to look for new classifications.

Section 6 stresses that in recent years many new categorisations and measurements have been put forward. The appendix shows the proliferation of categories that have emerged – most of them very specialised in dealing with particular aspects of development. Such proliferation of terms and indicators has occurred partly because it enhances the prestige of the organisation that puts them forward. But in some cases the new categories and indicators also have a practical use, making it possible to compare countries and identify priority areas of action. Examples include the Doing Business Indicators, the Environmental Performance Index, the Global Competitiveness Index, among others. Recognising this multitude of categories and indicators, developed by specialised agencies for specific issues, is important. While sometimes abused, they constitute an advance. They do not however help with the general debate on development policy.

The final section 7 explores alternatives that could help this general discourse. So as to ensure that this exercise has policy, and not just academic, relevance, we start by asking what are likely to be the main future concerns of European development policy and, given those concerns, what types of country classifications may prove useful. Broadly, two considerations are likely to have a major influence: first, sharing responsibility in global governance and second, finding new ways of helping the poorest countries to help themselves (the 'classic' challenge for development policy will not go away). Based on these two themes, we conclude that country classification based on state capacity, both internal and external, would significantly add to future debates about European development policy and suggest two possible models for such classification. We explain why the anchor country concept, developed by the German Development Institute and adopted by BMZ, seems suitable for a classification concerned with external capacity and deserves to be adopted internationally. Finally we suggest a country classification based on source of state revenue and explain why this would be an evidence-based way of capturing differences in internal capacity and help shift the development policy debate in a more useful direction.

1 Introduction

Classifications matter. How we group and label any set of entities certainly influences how we perceive them, and probably how we relate to them. Since the late 1950s at least, a particular classification of countries – a dichotomous distinction between '*developed*' and '*developing*' – has been dominant within the development business and prominent in other domains: the mass media; diplomacy; school curricula, etc. A range of labels is used to describe this dichotomy. In addition to '*developed*' and '*developing*', we have *developed* and *underdeveloped, donor* and *recipient, North* and *South, First World* and *Third World*. All however signal a major dichotomy between the same two sets of countries.

That dichotomous distinction – modified to acknowledge the existence at the time of a Second World of Communist countries with centrally-planned economies – dates back to the 1950s. There are two reasons why it became deeply embedded in language and thought in the 1950s and 1960s. First, it made empirical sense: most countries did seem to fall into one of three main groups – the First, Second or Third Worlds – as defined by both internal characteristics and patterns of external relations.[1] Second, these basic divisions were acceptable or actively embraced by governments of countries within each category. They were convenient, usable for political and diplomatic purposes and, among other things, consistent with both the 'development' and the geopolitical and security concerns and policies of the main Western/First World aid donors. We all agree that there is no longer a distinctive Second World of Communist-ruled, centrally-planned economies. However, we have not yet come to terms with the fact that the distinction between 'developed'/First World and 'developing'/Third World countries has become steadily less realistic and useful since the 1970s, to the extent that it is now seriously misleading. While the previous country groupings have become much more differentiated and lost their coherence, the world in general, and the development business in particular, is still to a large degree locked into the old language.

Are new, useful classifications possible? Two points about that follow almost automatically from the fact that the old groupings have become more differentiated. First, it is unlikely that any one simple new classification of countries into two, three or four groups will prove to be useful for a wide range of policy purposes. We will not replace 'developed–developing' with 'pinks, blues, greens and browns', or anything similar. There is however scope for a range of classification schemes which help to understand broad development patterns and help to inform development policy. Second, in this new world where the political map is more diverse and pluralistic, there are fewer chances that any one way of classifying countries will be useful to a wide range of governments and other policy actors. The governments of Brazil, Iran and South Africa, the managers of China's sovereign wealth funds, and Nordic ministers for development cooperation will be looking at other countries from very different perspectives and with very different concerns. They will probably use very different classifications. If it is to be anything more than an abstract intellectual exercise, any discussion of potential new ways of classifying countries needs to be attuned to the likely concerns of particular users. The users we have in mind are European government agencies concerned with doing something constructive about improving living conditions and governance in poor countries and improving global regulations and policies which help to make the world a better place.

1 We elaborate these two dimensions of country classification further in Section 2, but the internal similarities to which we broadly refer include a country's political system, economic system, income level, and economic growth rate, while relevant external features include main trading partners, geopolitical relationships, and degree of influence in international economic institutions.

Organisationally, we are assuming a continuation of recent trends in Europe: further integration and cooperation among the ministries and agencies with a mandate to deal with these issues – notably ministries of foreign affairs, development cooperation and defence. We can continue to refer to these concerns as 'development policy', on the understanding that this indicates attempts to reduce the adverse impacts of underdevelopment both on the immediate victims (poor people in poor countries) and on the world more generally (though connections with terrorism, the narcotics trade, illegal immigration into Europe, global disease control, piracy, etc).

Our central question then is whether European development policy agencies should be thinking of classifying countries differently. That seems to beg the question of whether any kind of classification is needed at all. Is it not better to treat each case and country according to its specific situation and character? Ideally, yes. But there are over two hundred countries in the world, and more than half of them are likely to be of direct interest to European development agencies. The staff of those agencies inevitably group countries for some purposes, notably general policy discussion. They already use a range of other groupings in addition to the core 'developed–developing' distinction. At the very least, they revert to geographical classification by region, which may be useful in some respects and problematic in others. Sub-Saharan Africa, for example, is a widely used grouping that is useful for debates on some development issues, such as contrasting industrial performance with South East Asia, but not for others, like failed states, which can be found in both regions. It is better explicitly to explore the scope for alternative classifications than to drift.

2 The origins of the developed–developing country distinction

In order to understand the currently prevailing language it helps to go back to the tripartite classification of countries that began to emerge at the end of the 1940s as a result of the Cold War. There has never been complete agreement around (a) the labelling of each category (e.g. should it be the *free world* or the *capitalist–imperialist powers*?) and (b) around where the boundaries should be drawn (e.g. did China belong to the Second World or the Third?). But, in historical perspective, it was relatively easy to classify the countries of the world into a small number of groups on a basis other than geographical location. The reasons? First, there was a considerable objective reality to the classification, as summarised in Table 2.1. The countries within each cluster had a great deal in common not only in terms of the attributes of their individual political and economic systems, but also in respect of how they related politically and economically to the rest of the world. Second, the tripartite classification was politically convenient for governments. The governments of the First and Second Worlds embraced a language that signalled a struggle between their two very different systems and ideologies. The governments of the Third World, many of them having enjoyed independence only in the early and mid-1960s, and most of them eager participants in the Non-Aligned Movement (founded in 1955), were willing for their countries to be labelled as different from both the capitalist First World and the communist Second World, and implicitly identified as both disadvantaged and as a new and creative force. This 'Third World' label was acceptable to the foreign policy and defence agencies of First World governments, as well as to their emerging foreign aid organisations. Competition with the Communist Second World for political influence was the dominant foreign policy concern in relation to the rest of the world; use of a single label for that remainder of the world made sense.

Countries of the First World were rich; capitalist; influential in the main international economic institutions; relatively highly-coordinated with one another over international and economic policy issues; broadly similar to one another in their main political and economic institutions; often exercised a great deal of influence in some parts of the developing world, frequently on the basis on recent colonial rule; and could claim to have successfully undergone an experience of 'development' to which the rest of the world aspired. Countries of the Third World appeared as the polar opposite on every count: poor; weakly capitalist (or anti-capitalist); weakly coordinated over policy issues (despite enthusiasm for the Non-Aligned Movement and the United Nations); lacking international influence; highly diverse politically, economically and culturally; and deficient in 'development'. The development debate in the West was mainly about the relationships between the First and Third World. The most common terminology which then emerged and 'won' was 'developed–developing' countries. The terms 'underdeveloped' and 'less developed' countries were also common for some time but – for diplomatic reasons – 'developing' prevailed.

Table 2.1 First, Second and Third Worlds, 1950s and 1960s

	First World (developed)	*Second World*	*Third World (developing)*
'Internal' features			
Political system	Liberal democratic	Single-party Communist rule	Mixed; rarely democratic
Economic system	Market-oriented	Centrally-planned	Variable
Income level	High	Mixed; generally medium	Low
Economic growth rate	High	Mixed	Low
'External' features			
Main trading partners	Other First World countries	Other Second World countries	First World countries
Geopolitical relationship to other 'Worlds'	Geopolitical competition with Second World; colonial power over, aid donor to, and dominant over, most of Third World	Geopolitical competition with First World; aid donor to, and influential in, parts of Third World	Aid recipient; subordinate; but actively 'Non-Aligned'
Influence in main international economic institutions	High	Low	Low

3 The donor–recipient relationship

In parallel to 'developed–developing', the distinction 'donor–recipient' became increasingly common particularly in the policymaking world. Underlying this distinction was – and is – an assumption which is rarely spelt out but needs to be made explicit: the idea of a tutelary relationship between the two sets of countries. We draw attention to it first, because it shaped attitudes and actions in the development business and continues to do so even though actual relationships have in many cases changed.

The original justifications for the emergence of large foreign aid programmes from developed to developing were shaped by perceptions of the successful Marshall Plan transfer of American capital to Western Europe after World War Two. They focused on the transfer of capital, especially through public sector organisations, from countries that were believed to be relatively capital-rich to those believed to be capital-poor. However, the aid relationship expanded, both practically and in terms of the ways in which it was represented, to other areas in addition to the channelling of capital and technical assistance, to include general guidance and injunctions about economic policy, public policy generally, and modes of governance. This 'mission creep' is no surprise: the extent of the (average) differences between developed and developing countries was such that it has been easy to argue for a 'development relationship' much broader than an aid relationship, with developed countries variously represented as being able to provide to developing countries:

- Public sector (aid) capital
- Private sector (investment) capital
- Expertise in managing the development process
- Strong bilateral linkages, understanding and influence over individual (ex-colonial) countries
- Collective influence over international and global institutions and organisations, to be exercised on behalf of developing countries.

Within developed/aid-giving countries, the notion of a responsibility to transfer real resources to poor countries has been allied to a notion of responsibility (and capacity) to guide them to make the best use of this assistance. This became clearest with the emergence of the good governance agenda in the 1990s and aid becoming conditional upon improvements in governance (Moore 1993).

There were alternative views. Many people, including a significant academic community in the developing world, challenged the implication that the policies of developed countries were motivated mainly by altruism or broad public interest concerns. They claimed rather that the governments of the rich countries were promoting the interests of global capitalism, and trying to advance capitalist/imperialist exploitation of developing countries. The relationship between the capitalist/imperialist core (or 'metropolis') and the dependent periphery needed to be overturned through political struggle (Frank 1966 and 1977; Dos Santos 1970). Variants of this contrary perspective, generally labelled 'dependency' or 'underdevelopment' theory, received special attention in the 1960s and in Latin America. Our concern here is not with the accuracy of either of these representations of the world, both are useful in some degree. The point is that even the major radical intellectual critiques were founded on the same dichotomous distinction between country groups as the orthodoxy they were attempting to displace.[2] Different labels were applied, but the country groups to which they were affixed remained the same.

Ironically, many of those holding the alternative views ended up working in the international and national development policy agencies, in which the developing–developed and recipient–donor distinction dominated. If this was just a matter of terminology, it would not matter all that much. But – as shown above– behind this terminology was what one might term a 'tutelary conception' of the relationship: the more privileged could and should help the less privileged countries and at the same time guide them to make the best use of this help. This conception has had a big influence on actions and attitudes on all sides. Much of the development debate became aid-centric and the mindframe of many in the development business became neocolonial.

4 New relationships require new classifications

The bases of the tripartite (First, Second, Third World) and dichotomous (developed–developing countries; donor–recipient countries) classifications were never as static as is implied by the 'snapshot' image in Table 2.1. The image is particularly valid for the late 1960s, once most of Africa had been de-colonised and foreign aid agencies, both the multilaterals and the bilateral agencies of the First World countries, had begun to emerge as a distinctive, influential set of organisations. It is however convenient for present purposes to start from that period and then examine how the world has changed since the beginning of the 1970s.

The disappearance of the category of Second World/centrally-planned economies is not a major concern in its own right. It matters to the extent that it contributes to our major story: the blurring of the differences between developed and developing countries such that the old labels are now rarely a useful way of summarising either (a) the structural characteristics of national economies or (b) the patterns of

2 In summarising in this way the ideas of an era, we run the danger of simplifying unreasonably, and representing the proponents as simple minded. We are aware that there was much more nuance in the debate. For example, some dependency theorists tried to develop a less dichotomous categorisation of the world, distinguishing 'core', 'semi-peripheral and 'peripheral' countries. Others early on employed what was then termed the 'transnationalisation thesis' to draw attention to processes that later received much more attention in the context of the study of globalisation: the extent to which privileged parts of the Third World had close relationships and shared interests with sections of the First World (Sunkel 1973). See also the excellent review of dependency theory in Palma (1978).

interaction between countries. Conceptually, there are two major dimensions to this 'blurring'. First, there is an increasing number of countries that are intermediate between the old 'developed' and 'developing' categories. This is partly a matter of the expansion in the number of middle income countries that no longer receive development aid. More important is the emergence of countries that combine characteristics formerly associated either with developed or developing countries, e.g. low incomes with fast economic growth and considerable geopolitical influence. The clearest examples of this new type of 'poor and powerful' country are India and China (Schmitz and Messner 2008). Second, globalisation has stimulated a greater degree of economic specialisation, often evident at the national level, which induces more differentiation within (in particular) the old category of 'developing countries'. They specialise to a lesser extent than before in the production and export of agricultural commodities. Some are now major exporters of manufactures, oil and gas, or software. Others specialise in offshore financial services, providing migrant labour, narcotics production or transit facilities, tourism, a broad spectrum of entrepot services. High levels of economic specialisation of these kinds often have major impacts on politics and governance, and considerable implications for how we would wish to classify countries for purposes of European development policy.

To keep the story clear, we first list the main global political and economic changes that have impacted on the developed–developing country dichotomy (change processes), and separately summarise their implications for an attempt to develop new categories today (outcomes). The change processes are to some degree interdependent. To the extent that they are separable, the most significant are.

4.1 Economic growth and its relational effects

At our point of historical departure:

- Developed countries were much richer than developing countries; the distribution of income by country was distinctly bi-modal: most people lived in countries that were either rich or poor, with few in between.[3] First World countries dominated international economic institutions and most international economic relationships.
- Although to some degree challenged by the growth performance of the centrally-planned economies in the 1950s, the developed countries were widely believed to possess a valuable formula for market-driven, capitalist-inspired economic growth. This was especially the case in the 1970s and

3 The rapid economic growth of Taiwan and South Korea in the 1950s to 1980s, that excited so much interest at the time and helped generate a continuing debate on the 'developmental state', actually had little impact on the politico-economic patterning of the world. These two countries are relatively small and, because they are in sensitive geopolitical locations, they have little scope to exercise much independent foreign policy influence. In essence, they leapt the income divide between developing and developed status, and then the divide between authoritarian and democratic rule, without much changing the world around them.

1980s, when the Second World ceased to offer serious rivalry in growth performance, and it was not yet clear how much rivalry the poor countries of Asia were to provide. Overall, the First World generally could credibly claim a 'West is best' approach to generating economic growth.

In each respect, the apparent 'superiority' of the First World has been eroded:

- Fast economic growth in Asia has led to some blurring of the former bi-polar pattern of income distribution by country. Many more people now live in countries with incomes intermediate between the two poles (see Section 5), and some of those fast growing large economies, notably China and India, now exercise considerable geopolitical and economic power at the global level.

- The locus of fast economic growth has shifted unambiguously from the former First World. The trajectory has been unstable and uneven, but the overall trend has been to faster growth in poorer countries. For most of this decade, the economies of most of the developing world, including sub-Saharan Africa, have been growing faster than those of the developed world. Much of this recent growth, especially in sub-Saharan Africa and, to a lesser extent, in Latin America, was induced by the boom in commodity prices stemming from fast rates of growth of manufacturing production in China and of economic growth in China, India and other parts of South, Southeast and East Asia.[4] It is unclear how far African economic growth will be sustained now that the commodity price boom seems to be over. It is clear that the claim to a generic 'West is best' approach to generating economic growth is no longer credible; and the trajectory of the 2008 global financial crisis undermines any claim that the traditional 'developed' countries have a special competence in economic management at the global or national level.[5]

4.2 Energy sources

Until World War Two, developed countries collectively were largely self-sufficient in energy resources: mainly coal, with significant domestic oil production in the United States. Their dependence on oil from the Middle East (and Venezuela) increased considerably in the 1950s and 1960s,[6] but in a context where the

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4 For an analysis of how growth in China and elsewhere in Asia has affected other developing countries, see Kaplinsky and Messner's (2008) introduction to the special issue of *World Development* on Asian Drivers of Development and other papers in that issue.

5 The forecasts for 2009 suggest that rates of GDP growth are scattered almost randomly across the globe. The following national economies are predicted to grow fastest: Qatar, Malawi, Angola, Ethiopia, China, Congo-Brazzavilla, Djibouti, Azerbaijan, Tanzania and Gambia; rates of GDP decline will be fastest in: Iceland, Zimbabwe, Latvia, Ukraine, Venezuela, Taiwan, Estonia, Ireland, Singapore and Britain (*The Economist*, 20 December 2008, p169).

6 At that time, economic growth was so energy intensive that, before the development of good national accounts systems, rates of economic growth were measured by rates of change in the use of commercial energy.

governments of the main oil producing states (Venezuela, Kuwait, Saudi Arabia, Iran, Iraq, Libya) were generally dependent on and subservient to the United States and Britain in particular. Despite its many distinctive features, the Middle East was not at that point obviously mis-classified when placed in the developing world category. Oil wealth had not yet transformed material living conditions for many people. Most oil exploration, extraction, processing and exporting were undertaken by the American and Anglo-Dutch oil majors. The (neocolonial) dependence on the US and Britain was evident. The situation changed as Middle Eastern political leaders sought to exploit the increasing dependence of the developed country economies on oil and the very high rents that could be earned from control of the industry. When Prime Minister Mosaddeq of Iran nationalised Western oil assets in Iran in the early 1950s, he was removed from power by an Anglo-American inspired coup. But the balance of power gradually shifted from Western governments and companies to local politicians. In 1961, the Iraqi government nationalised most of the country's future oil potential. The nationalist Ba'ath Party came to power in 1968, and in 1971 nationalised the existing oil assets of the Western companies. OPEC, founded in 1960, was able to take advantage of oil shortages in 1973 to engineer production limits, rapidly push up the price to what were considered crisis levels, and at a stroke transfer something like 2 per cent of the world's GNP from oil purchasers into its own coffers. That set in train two processes that, amid all the volatility of the oil industry (and increasingly the allied natural gas industry), have continued up to the present. First, the average rents from oil and gas production have been very high, and governments have generally succeeded in capturing a very large proportion for themselves, to the extent that they have become wealthy and potentially very powerful.[7] Second, the large relative decline in the North American contribution to global oil and gas production (Table 4.1) has been substituted by new sources, nearly all in areas with few non-energy income sources: Russia, the Caucasus, Central Asia and parts of sub-Saharan Africa.[8]

Some oil and gas exporting countries have high average per capita incomes; some, notably in Nigeria, are very low. Some governments have wasted oil and gas rents, or used them on armies, weapons and wars. But in all cases the governments themselves, through their control over these new resource rents, have emerged as such powerful actors, domestically and even more internationally, that their countries no longer fit sensibly within a developed–developing country classification.

7 In the Middle East, most of Latin America and in Russia, national state corporations directly control most exploration, extraction, processing and exporting, especially of oil. Foreign companies, now including state energy companies from Asia, are more prominent in the natural gas business and in sub-Saharan Africa.

8 In 1970, Nigeria supplied 84 per cent of the oil and gas from coming from sub-Saharan African sources. By 2007, it provided only 41 per cent, with Angola, Sudan, Equatorial Guinea, Congo (Brazzaville) and Gabon also constituting significant suppliers (BP 2008).

Table 4.1 Regional contribution to global oil and gas production (% of world total) (3 year averages, in oil equivalents)

	1970–1972			2005–2007		
	Oil	Gas	Oil + gas	Oil	Gas	Oil + gas
North America	26	64	37	17	27	21
South and Central America	10	2	8	9	5	7
Europe and Eurasia	17	30	21	22	37	28
Middle East and North Africa	42	3	30	36	17	29
Sub-Saharan Africa	4	0	3	7	1	5
Asia Pacific	5	2	4	10	13	11
World	100	100	100	100	100	100

Source: BP (2008).

4.3 Collapse of the Soviet Bloc and the end of the Cold War

The collapse of the Soviet Bloc in 1989–90 did not pose a major direct challenge to the distinction into developed and developing countries. It did however contribute to blurring the distinction in various ways. In the short term, it resulted in a temporary increase in the number of middle income (Central and Eastern European) countries receiving Western aid and technical assistance. In the longer term, it has left a group of middle income former-Communist countries in the Balkans and the Caucasus that are neither 'developing' in the old sense nor sufficiently well governed to qualify for membership of the European Union – and therefore for 'developed' status. More important for present purposes was the end of the Cold War. Geopolitics in the former Third World are no longer shaped by the pressures of global geopolitical competition between the First and Second Worlds. To use a common metaphor, the geopolitics of the former developing countries have 'unfrozen'. This has contributed, through three main channels, to the emergence of wider distinctions among them:

- First, the 'natural' influence of the larger and more powerful 'developing' countries over smaller, less powerful countries within their region has grown. The list of new regional powers includes Brazil, India, South Africa, Iran, Turkey, Mexico and others. Russia has become a regional rather than a global power, but China has become a global power. We return to this issue when we discuss the concept of anchor countries in Section 7.

- Second, in sub-Saharan Africa, the relatively clear-cut conflicts over state power associated with decolonisation, the Cold War and Apartheid in South Africa (Mozambique, Angola, Zimbabwe, Algeria) have largely ended. Instead, sub-Saharan Africa is more divided between (a) relatively stable regions and (b) regions blighted by recurrent, complex, resource-driven intra-state and cross-border conflicts that are not easily amenable to resolution (especially the Great Lakes, parts of West Africa and the Horn of Africa/ Eastern Sahel).

- Third, while Western aid donors have generally increased their total aid, they have less geopolitical motivation to spread it widely among middle and low income countries (to win 'Cold War' friends), and have concentrated it increasingly on the poorest countries.[9] The extent of the dependence of some governments on aid for their finances is higher than during the Cold War.

We use the term 'globalisation' in its most general sense: the increasing intensity and frequency of interactions between people and countries in different parts of the world. The period we are covering here was, until 2008, one of particularly rapid globalisation, as evidenced in particular in the growth of international trade, international financial markets and transactions, communications and, more recently, labour migration. One consequence of these processes of competitive, market-driven integration of economies across the world has been a relative decline in trade and other economic linkages stemming originally from colonial rule. British and French companies, governments, universities and other institutions no longer enjoy such privileged connections and influence with former colonies as they did in the 1960s. They face more competition from American, Brazilian, Chinese, Nordic, and other counterparts.

The more consequential impacts of globalisation derive from the ways in which it stimulates economic specialisation by location, and thus the re-allocation of economic activities across the globe.[10] Much of the commentary on contemporary globalisation has focused on the spatial reallocation of production activities: for example, the emergence of major manufacturing hubs in China, agro-production and processing in Brazil, and software activities in India. That focus in turn leads to an emphasis on increasing internal spatial economic differentiation within larger countries in particular and, very often, to the suggestion that national borders are of declining significance. If that were the dominant economic consequence of globalisation, then the notion of seeking new and more useful ways of classifying *countries* would seem to be misdirected or impossible. However, if we take into account the full range of processes of locational specialisation associated with globalisation, we see that they do not all presage the growth of internal spatial economic differentiation, the decline of state power or the irrelevance of national borders. Some of them have national rather than sub-national impacts, directly affect governments and polities as well as economies, and accentuate processes of differentiation among former developing countries, especially in respect of the ways in which their governments are financed.

9 The extent to which this concentration has occurred varies among donors and over time. For an analysis of historical trends see Maizels and Nissanke (1984) and for international variation in contemporary levels see Baulch (2007).

10 Globalisation has also stimulated increasing income inequality within most developed countries, further eroding a characteristic – relative income inequality – that tended in the past to distinguish them from developing countries.

The general point is that globalisation encourages some specialisation in economy activity by location. In some cases this leads to the diversification of economic activities within a country. This is especially likely in large countries. The growth of manufacturing, agro-processing and software industries has diversified the economies of China, Brazil and India respectively. The growth of labour migration and remittance economies has had more mixed effects: it has diversified the economies of Nepal and the Philippines, but led to something approaching economic monoculture in many small Pacific island countries that have very little significant comparative advantage in any type of local production. In other cases, and especially in smaller states and/or where niche activities require the active support of public authorities, globalisation has supported national specialisation, mainly of the following forms:

- Variable combinations of associated high value-added, 'city state' activities notably entrepôt /transhipment trade; offshore financial activities; high end shopping, tourism and entertainment; international shipping registration; and secure property ownership and residence (Dubai, Singapore, Doha, dozens of jurisdictions offshore financial centres – most of which are not states but sub-state jurisdictions).
- Narcotics production (Afghanistan, Myanmar, Colombia, Peru, Bolivia).
- The narcotics transit trade (that is relatively stable in Mexico and much of the Caribbean, and more footloose in West Africa, but currently includes Guinea Bissau and, increasingly, Ghana).
- Oil production (see above).
- Receiving development aid (see above).

The implications of these emerging patterns of niche specialisation have been little explored. They are likely to have important consequences for (a) the potential sources of public finance and the incentives faced by governments to tap these sources; (b) the incentives for political elites to engage in various kinds of state-building; and (c) government and state capacity generally.

Shifting to a higher level of abstraction, we can reorganise the material above to define four broad politico-economic processes that have contributed most, since around 1970, to diminishing the usefulness of the distinction between 'developed' and 'developing' countries (or *donor* and *recipient, North* and *South*, etc).

- **A more pluralistic global political economy:** Wealth has become more widely distributed among countries. On the strength of various combinations of economic and population size, a sustained record of fast economic growth, and command of large oil and gas revenues, some countries exercise geopolitical, financial and economic influence that they did not enjoy before. They increasingly trade, interact and cooperate among themselves, have a greater voice in international organisations,[11] and in some cases enjoy a great deal of international financial influence, partly through sovereign wealth funds fuelled through exports of oil, gas and manufactures. China is the outlier case, in that it exercises global rather than regional influence, and offers a political-economic value system and model of development distinctly different from that promoted by 'developed' countries. Even those poor countries that remain relatively powerless now have a wider choice of trading partners and of sources of private investment and public borrowing, with China playing an especially significant diversification role in Africa.

- **'West is not best':** Developed countries can no longer claim special competence in economic management or promoting economic growth. For a long time, this claim derived its justification from the perceived superiority of Western models and practices. Now that the East is out-competing the West and demonstrating more effective ways forward, using the West as a reference point – or the model to live up to – is hard to justify (Schmitz 2007).
- **Niche rentier economies:** The increasing specialisation of some countries in niche activities, shaped by global economic integration, enables governments (or political and bureaucratic power-holders operating informally) to finance themselves through means other than broad general taxation: rents from oil and gas, property development, narcotics production and trade, licensing off shore financial activities, and aid receipts.
- **Governance failures:** In some countries and regions, the internationally-recognised government does not exercise the basic level of control of population and territory formerly required under the (Westphalian) international system, and is instead embroiled in continuous armed conflicts with other parties.

The implications of these four broad politico-economic processes for the conception of a world divided between aid-giving developed countries and aid-receiving developing countries is summarised in Table 4.2. The list in the left-hand column refers to the 'developmental relationship' that might have been expected to exist between rich and poor countries on the basis of the differences between them in the 1950s and 1960s. It comprises (a) the various 'developmental inputs' that rich countries might have been expected to provide to poor countries (see Section 2) and (b) the implied contribution of poor country governments: willingness, ability and motivation to make good use of these developmental inputs. The stars (*) indicate the points at which the politico-economic changes summarised above are most likely to call into question this traditional notion of the development relationship.

11 One example of this 'voice' is the active role taken by Brazil and India in the WTO, most clearly visible at the 2003 WTO Ministerial Conference in Cancún, Mexico.

Table 4.2 The impacts of major post-1970 global politico-economic changes on 'traditional' notions of the donor–recipient development relationship
(* signifies a significant impact)

Major politico-economic changes:	More pluralistic global political economy	'West is not best'	Niche rentier national economies	Governance failures
'Traditional' (1950s and 1960s) conception of potential contributions of developed countries to the development relationship				
Public sector (aid) capital	*	*	*	
Private sector (investment) capital	*	*	*	
Expertise in managing the development process	*	*	*	
Strong national linkages, understanding and influence over individual (ex-colonial) countries	*	*		
Collective influence over international and global institutions and organisations, to be exercised on behalf of developing countries	*	*		
Implicit conception of potential contributions of developing country governments to the development relationship				
Governments are willing, able and motivated to make good use of developmental inputs from rich countries			*	*

5 But it remains a world divided between rich and poor countries

The original distinction between developed and developing countries was based not only on a relatively wide gap between rich and poor countries: this gap also coincided with characteristic differences both in the internal attributes of nations (political and economic systems, rates of economic growth) and in their external relationships (Section2). In recent years, however, it has become less and less possible to distinguish a group of 'developed' and a group of 'developing' countries that differ from each other in terms of these internal attributes and external relationships (Section 4). Yet we continue to use the 'developed–developing' country distinction. The main reasons seem to be inertia, the difficulty of creating a simple alternative in an increasingly differentiated world, and the needs of the aid business. But it is important to note that this distinction still has some valid empirical basis: if we use figures of average per capita national income, then we still can sensibly divide the world relatively clearly into rich and poor countries. This point requires a little explanation, all the more so as the 'rise of China' might in some eyes suggest a major shrinking of the old rich-poor gap.

If we measure the distribution of income among **people** (regardless of nationality or location), then we do find a significant change over the past 40 years: the pattern is less bi-polar, with more people (the new 'global middle class'?) in intermediate income brackets. That change is however heavily driven, in a statistical sense, by one very large country: China (Edward 2006).

If we look at changes in the distribution of income by **country**, we get a different – and less certain – picture. One problem is that we do not have comprehensive figures and analysis covering the entire period since 2000, which was when the economies of most poorer countries on average were growing faster than those of richer countries. The data that we do have suggest two clearly defined trends and a highly debated third.

5.1 Rising per capita incomes

Broadly speaking, the world has become a wealthier place, even for the poor. While the growth rates of individual countries have varied widely in the last half century, the overwhelming trend has been one of positive economic growth. Global per capita incomes have more than tripled, from \$2544 in 1970 to \$7958 in 2007 (World Bank 2007). It is clear that, despite periodic stagnation in several of the poorest countries, most poor countries have shared to some degree in this growth as evidenced by rising per capita incomes and reductions in absolute poverty. Some poor countries have even managed to sustain long periods of growth at higher rates than rich countries.

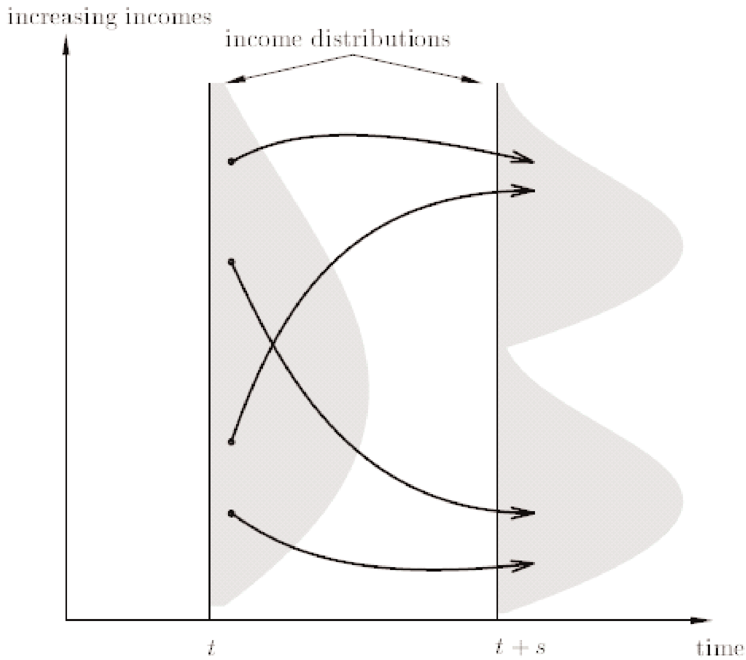
5.2 Absolute divergence

Despite their growth, poor countries are falling further behind rich ones. A focus on growth rates alone can be misleading. Even where low income countries display higher growth rates than high income countries, it is entirely plausible for the absolute gap between the two country groups to continue to grow. Indeed this has been the case even during the post-2000 systematic rapid growth in low income countries and even in the world's most dynamic economies: China and India.[12] On the whole, poor countries may indeed be growing, but given their lower initial levels of per capita income they are not doing so sufficiently fast to keep up, let alone converge absolutely, with rich countries. This condition of absolute divergence has characterised changes in the world income distribution for decades and will continue to do so for years to come.

5.3 Polarisation

A discussion of the size of the absolute income gap between rich and poor does not tell us the whole story. A dichotomous system of classification that labels 'rich' and 'poor' countries suggests not only a significant inter-group gap, but also a degree of intra-group cohesion. Early work by Danny Quah (1996) and others suggested a polarised 'twin peaks' distribution of world income characterised by both these processes. Quah argues that over time countries tend to converge not to a global mean, but around two poles, one high-income and one low-income, resulting in the bimodal distribution seen on the right side of Figure 5.1. The presence of these 'convergence clubs' strengthens the case for a dichotomous system of country classification that distinguishes between rich and poor.

Figure 5.1 Twin peaks distribution dynamics



Source: Quah (1996: 17). (Reproduced with permission of LSE.)

Beginning with Esteban and Ray (1994), a number of studies have attempted to quantify the extent of polarisation and to measure trends. Their conclusions,

12 This divergence is easily illustrated by a simple mathematical exercise. Assuming 10 per cent growth in the GNI/capita of China (2007 GNI/capita = $2,360) and India (2007 GNI/capita = $950), results in annual increases of $236.00 and $95.00 respectively. A 1 per cent rate of growth in GNI/capita of the United States (2007 GNI/capita = $46,040) results in an annual increase of $460.40. Assuming constant growth (extremely optimistic given the global reach of the 2008 financial crisis), Chinese per capita income would continue to decrease relative to US per capita income for a further 8 years and the figures would not converge until 2042. For India the figures are 19 years and 2053 respectively. For most low- and middle-income countries, lower rates of growth, lower initial levels of GNI/capita or both suggest an increasing gap between rich and poor countries.

however, are rather mixed. Seshanna and Decornez (2003) find a steady, unidirectional increase in the level of polarisation from 1960–2000 that suggests the distinction between rich and poor is not only present, but also becoming increasingly pronounced over time. In contrast, Duro (2005), using more complete data and a wider range of polarisation measures, finds a curvilinear pattern in which initial increases in polarisation were followed by decline during the 1980s and 1990s.[13] This finding does not necessarily conflict with the evidence for absolute divergence if it reflects increased intra-income group dispersion. However, neither Duro nor Seshanna and Decornez provide a breakdown of the relative contributions of intra-group concentration and inter-group distance to polarisation.

The short answer is that we do not yet have a consensus that the traditional classification of the world's countries according to income has broken down to any great degree. Even Duro's more optimistic results still indicate a substantial (if declining) degree of polarisation in the world income distribution. While we certainly cannot discount the possibility that polarisation is decreasing, there remains some justification for a division between rich and poor countries according to their GNI/capita. The evidence thus far does not appear to be strong enough to overcome path dependency in country classification by income and in the absence of stronger evidence based on more complete data, we can expect the dichotomy of rich and poor to retain its considerable influence in the development discourse.

6 The proliferation of classifications and rankings in the current development business

The picture we have summarised in Sections 4 and 5 is not simple: a dichotomous classification of countries that was once applicable and useful has lost much of its value; yet the most fundamental statistical fact underpinning that dichotomy – the existence of a clear, large gap in average incomes between rich and poor countries – remains valid. It is not surprising that no single new way of classifying countries has emerged, and that the language of the development business is still dominated by the dichotomy between 'developed' (rich, First World, aid donor, North) and 'developing' (poor, Third World, aid recipient, South).[14] For example, the UK Department for International Development's 2006

13 Seshanna and Decornez (2003) use Penn World Tables 5.6 for data from 1960 to 1992 and World Development Indicators for subsequent years up to 1999 for 112 countries, Duro (2005) uses the Penn World Tables 6.0 from 1960–2000 for 108 countries.

14 There are a number of terms used interchangeably here, including some alternatives we find rather obsolete. The most grotesque category is that of 'industrialised' countries for the countries of the OECD (given that de-industrialisation has been one of their main characteristics in recent years). In English, this has become less common but in German, 'Industrieländer' remains the most frequently used term.

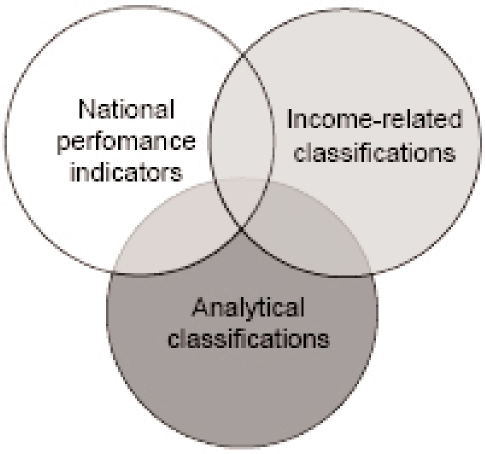
White Paper on international development makes 27 references to 'poor countries', often drawing a direct comparison with 'rich countries' and using the terms interchangeably with the developing–developed dichotomy. However, while dominant, that dichotomy does not enjoy a monopoly: finer categorisations and rankings of countries have proliferated – either 'developing' countries alone, 'developed' countries alone, or all countries together.

Within the contemporary development business, there are three distinct 'families' of classification/ranking schema. We label them:

- Income-related classifications
- National performance rankings
- Analytical classifications

There is some overlap among them at the margin (Figure 6.1), but they are distinctive in terms of form, purpose and content.

Figure 6.1 Tripartite distinction of classification systems



6.1 Income-related classifications

The business of ranking and classifying countries according to income levels is so prevalent as to seem natural. It is intrinsic to the aid business. While national income statistics are subject to continuous improvement, and we can now choose alternative measures of national income with different conceptual bases (i.e. measures of purchasing power parity rather than nominal gross domestic product), the core concepts and practices have remained relatively stable in recent decades. Measures of national income are of considerable practical importance in the aid business. First, low incomes constitute the primary legitimation of aid.[15] Second, individual aid agencies, international financial institutions, and other international agencies need continuously to rank countries

15 There is a significant literature, largely drawing on the work of Dudley Seers, which criticises the use of per capita incomes as a metric for development. Seers (1972) suggests this type of income indicator could change independently of changes in the true criteria for the realisation of human potential, identified by the author as poverty, unemployment and inequality.

by income (or by criteria that are largely income-based) in order to allocate aid entitlements among potential beneficiaries.

The World Bank has played the leading role in establishing the benchmarks for eligibility for various sources of development financing. Its policy is that, for operational and analytical purposes, the main criterion for classifying economies is gross national income per capita, with countries classified as low income (<$935), lower-middle income ($936–$3,705), upper-middle income ($3,706–$11,455) and high income (>$11,456) countries. A low-income classification, as defined above, is also the condition for eligibility for the Bank's Civil Works Preference facility. Until 2008, a low-income or lower-middle income classification was required for access to long-term (17-year) loans. In addition to these basic income classifications, the World Bank uses an income classification ceiling of $1,095 for eligibility for highly concessional IDA funding that comprises interest-free loans as well as grants. Currently 64 countries are eligible for IDA funding because they meet that criterion, with a further 14 eligible for what is termed 'Blend funding' (both IBRD and IDA loans) because they combine low per capita incomes with the financial creditworthiness to borrow from the World Bank on non-concessional terms (World Bank 2008). Other development agencies, like the OECD Development Assistance Committee and the regional development banks, use World Bank classifications to determine aid eligibility. The African Development Bank classifies its borrower-members as A, B, or C to signal the degree of concessionality to which they are entitled. Categories A, B and C correspond exactly to the World Bank's IDA, Blend and IBRD entitlement classifications (Table 6.1).

Table 6.1 World Bank lending category classifications

World Bank IDA Eligible	World Bank Blend Eligible	World Bank IBRD Eligible
AfDB Lending category A	AfDB Lending category B	AfDB Lending category C
<$1,095	<$1,095 + credit-worthiness	>$1,095 + credit-worthiness

Source: Asian Development Bank (2008).

In addition to the 'pure' income (and income + debt repayment capacity) classifications mentioned above, a number of official international organisations classify countries through combining income and a range of other criteria:

- Highly Indebted Poor Countries – HIPC (United Nations) – income + debt.
- Least Developed Countries – LDCs (United Nations) – income + weak human assets and economic vulnerability.
- Advanced and Emerging Economies (IMF World Economic Outlook) – income level + export diversification + degree of integration into the global financial system.

- Low Income Countries Under Stress – LICUS (United Nations) – income + performance of 3.0 or less on both the overall World Bank's Country Policy and Institutional Assessment (CPIA) rating and on the CPIA rating for Public Sector Management and Institutions.
- Low Income Food Deficit Countries (United Nations) – income and food deficit.

6.2 National performance rankings

Let us begin with a list of some of the more familiar performance rankings: the Freedom in the World Index (Freedom House); Transparency International's Corruption Perceptions Index; the Doing Business Index (World Bank); the Human Development and Human Poverty Indices (United Nations Development Program); the World Governance Indicators (World Bank); the Global Competitiveness Index (World Economic Forum); the Bertelsmann Transformation Index (Bertelsmann Foundation); the International Country Risk Guide (Political Risk Services); the Environmental Performance Index (Yale and Columbia Universities); the Gender-related Development Index; the Gender Empowerment Measure; the Global Integrity Index (Global Integrity); the Globalisation Index (Foreign Policy); the Index of Economic Freedom (Heritage Foundation); the Competitive Industrial Performance Index (United Nations Industrial Development Organization); the Failed States Index (Foreign Policy and Fund for Peace); the State Fragility Index (Center for Systemic Peace); the Science and Technological Capacity Index (RAND Corporation); the Economic Freedom of the World rankings (Fraser Institute); and the Trade and Development Index (United Nations Conference on Trade and Development).

What do these rankings – and the (literally) dozens more that are now appearing every year – have in common? Taking them at face value, we might identify five defining features.

First, they are normative rankings. Each country is given a ranking so that it can be compared with other countries and evaluated, either in terms of public policies, development outcomes of various kinds, or both.[16]

Second, as the list above implies, these are intended not as general development performance indicators, in the way that GDP growth is a general indicator, but are focused on particular themes or policy domains, from industrial innovation through to the 'child friendliness' of public policy, and from the quality of governance through to the standard of environmental policy.[17]

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16 Many of these lists cover almost every country in the world for which there are data, excluding only the smallest. Some cover only particular regions or groups of countries.

17 The main exception is the Human Development Index which can be considered a general development performance indicator. Some suggest that it should be used as the used as *the* development performance indicator. The classification of countries according to high, medium and low human development, however, is not widely used in the general development debate.

Third, and closely related, most of these rankings are intended as benchmarks to influence public policy. Much of the underlying purpose is to persuade the government of, for example, Indonesia that, because in 2009 it ranks number 129 in the world on the World Bank's Doing Business Indicator, while Singapore ranks number 1, and even Zambia ranks number 100, it should be undertaking the reforms needed to improve its ranking, and thereby improve the business environment. In some cases, shame is supposed to play a bigger role: the Government of Indonesia is expected to come under pressure to reduce corruption in the country because, for example, Transparency International's 2008 Corruption Perceptions Index ranks it at 126, while neighbouring Malaysia stands at 47.

Fourth, these rankings are based on composite statistics. Country performance is measured on a range of criteria. These measures are then aggregated in some way – often simply averaged – to produce the overall score, which in turn produces the ranking. For example, the Failed States Index is based on scores from 1 to 10 in each of 12 domains;[18] the scores are simply averaged. The production of the World Bank's World Governance Indicators involves complex statistical techniques to impute the values of missing observations (Kaufmann *et al.* 2008).

Fifth, most are produced annually.

To understand the significance of these national performance rankings, we need to look beyond their formal properties. The first point to note is that the number of such rankings has exploded in recent years (Bandura 2005, 2008). Thanks to monitoring by UNDP, there is now have a comprehensive listing (see Appendix). Some rankings listed by the UNDP, such as the various indicators of commercial risk and sovereign credit ratings do not strictly fall within our purview, as they are designed to help shape commercial decisions rather than public policy. There is however explosive growth in rankings of all kinds. The Appendix gives the 2008 update of the UNDP list which includes 178 distinct composite indices. Of those, 84 per cent have been created since 1991. Some of the more recent include; the Happy Planet Index (Friends of the Earth – New Economics Foundation), the ICT Opportunity Index (International Telecommunications Union) and the Global Peace Index (the Economist Intelligence Unit and the Institute for Economics and Peace). Underlying this rapid growth is an increasing competition between organisations: to be the source of the definitive national performance ranking indicator within one's thematic area is a claim to authority and status. For a few organisations like Transparency International, the release of the annual rankings is a major media and publicity event. With the exception of a few organisations like the World Bank that generate two or more indicators, the majority of originating institutions produce a single ranking.[19]

18 These are labeled: demographic pressures; refugees and displaced persons; group grievance; human flight; uneven development; economy; delegitimisation of state; public services; human rights; security apparatus; factionalised elites; and external intervention.

19 Of the 125 organisations generating indices in the 2008 UNDP survey, 98 were responsible for a single index (Bandura 2008: 10)

Some of these national performance rankings have received considerable public scrutiny and critical attention. This includes, for example, Transparency International's Corruption Perceptions Index, and the World Bank's World Governance Indicators. A particularly thorough and critical evaluation was carried out by the Independent Evaluation Group of the World Bank on the construction and use of IFC/World Bank's *Doing Business* indicator (IEG 2008). That these indicators can be very valuable is not in doubt. They permit some very useful comparative mappings of public policy across countries. Low rankings relative to neighbouring countries, or others considered to be valid comparators, can be a more effective way of getting the attention of policymakers than the knowledge that they do not live up to 'international best practice' or OECD standards. At the same time, it is clear that most of these indicators will remain 'essentially contested': specialists within particular domains will disagree about both their accuracy and their usefulness. There are four main types of critiques:[20]

- Are the data used in the construction of the indices sufficiently accurate?
- How useful is it to rely on the perceptions of expert informants as guides to the underlying situation?
- On what basis are the various components used to construct the indices actually chosen, and their relative importance weighted?
- What are the potential adverse side-effects of these ranking exercises, whether in terms of (a) making it possible for governments to take steps to improve their rankings that do not really address underlying problems or (b) imposing particular un-evidenced prejudices, or ideologies about what, for example, makes economies more competitive?

We acknowledge that the enormous variety of systems of classification, including those listed in Appendix 1, represent an important advance from the inappropriate simplicity of the 'developed–developing' dichotomy. However, it is important to recognise that the increasing proliferation and thus choice of indicators has been driven at least as much by changes in the development business as by more objective changes in the world. Increasing institutional capacity for thematic specialisation, increased statistical capacity, and the need to build organisational prestige have produced a set of classifications which can help with specific concerns but remains unable to capture the new structures and relations in the real world.

6.3 Analytical classifications

Analytical classifications are employed with increasing frequency, as a reflection of the decreasing usefulness of the 'developed–developing' country dichotomy. They fall into three main sub-groups:[21]

20 See Bandura (2005: 13–14) for a summary of the extensive literature critiquing composite performance indices.

21 One might include *Transition Eonomies* in this list, but the label is now becoming rather dated: the former centrally-planned economies are very diverse.

- First, there are the labels that are applied to sub-sets of countries within the traditional 'developing country' category to signal that they face specific problems, with the implication that they require more aid or special attention from the outside world: e.g. *Land-Locked Developing Countries; Small Island Developing States; Fragile* or *Failed States*.
- Second, there are labels that are applied to former 'developing countries' to signal that they are becoming wealthy/developed: e.g. *Newly Industrialising Countries (NICs); Emerging Economies; Emerging Donors; Frontier Markets.*
- Finally, there are labels identifying formerly poor and/or geopolitically weak countries which, because of the changes in the global politico-economic system discussed in Section 4, are, or are becoming powerful at regional or even global levels: *BRIC*s (Brazil, Russia, India, China); *N-11* (Next 11);[22] *The Asian Drivers*,[23] and *Anchor Countries*.

We find the concept of *Anchor Countries* particularly useful and discuss it further in Section 7 which proposes classifications focused on external and internal capacity of states. Since state capacity has also been a central concern in the debate on failed states, the classification issues arising in this debate need some attention here.

Since the end of the Cold War, international organisations and Western governments have increasingly been employing terms that explicitly identify particular governments of some poorer countries as (a) having *failed* in some fundamental respect and/or (b) therefore being a threat to the rest of the world because of their inability or unwillingness to control various 'bads' emanating from their territories – conflicts, narcotics, epidemic diseases, trade in arms, piracy, mass illicit migration, product counterfeiting, terrorism etc. That discussion, and the concepts and terms used to advance it, are still very much works in progress. There is much that could be critiqued and criticised. We will concentrate here on labelling and classification issues.

- Among the various overlapping and competing labels that have been applied to the 'problematic' poor countries, two relatively distinct types can be identified. The first are the labels that refer in particular to failures in development performance. These tend to emanate from international aid and development organisations. The UK's Department for International Development for some years used the term *poor performers*, while the World Bank employed the (equally allusive) notion of *Low Income Countries Under Stress* (LICUS). The second type of label refers more to the potential for governance deficits to cause problems for the rest of the world: *fragile* or *failed* states.

22 The *N-11* classification includes Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam. These countries were identified by Goldman Sachs in 2005 as a follow-up to their work on the *BRIC*s. Representing the next group of large-population countries with the potential for a significant global economic impact, the *N-11* classification is far more diverse than the *BRIC*s and has yet to gain the same popularity (Wilson and Stupnytska 2007).

23 China and India (Kaplinsky 2006).

- The terms *fragile states* and *failed states* seem to be increasingly popular and dominant. They are conceptually less murky than *poor performers* or *Low Income Countries Under Stress.*
- There is formally an important conceptual distinction between the terms *fragile states* and *failed states* that is not always maintained in practice. The judgement that a state has *failed* should refer to an accomplished fact, while the judgement that it is *fragile* implies simply a strong potential or possibility for failure. 'A failed state is one whose government is not effective or legitimate enough to maintain the rule of law, protect itself, its citizens and its borders, or provide the most basic services. A fragile state is one in which these problems are likely to arise' (Cabinet Office 2008: 14). While empirically assessments may in some cases be difficult, the distinction is clear.
- The widely cited *Failed States Index*, produced annually by the journal *Foreign Policy* and the Fund for Peace is in fact a mixed indicator, covering *fragility* as well as *failure*. Individual countries are scored according to 12 (sometimes subjective) measures: demographic pressures; the numbers of refugees and displaced persons relative to populations; the extent of group grievance; the incidence of human flight; the degree of uneven development; the condition of the national economy; the extent of delegitimisation of the state; the condition of public services; the extent of human rights violations; the power of the security apparatus; the extent to which political elites are factionalised; and the degree of external political intervention. The resulting list has considerable plausibility. Few observers would disagree radically with the 2008 ranking that identifies the following states as the most 'failed': Somalia, Sudan, Zimbabwe, Chad, Iraq, Democratic Republic of Congo, Afghanistan, Cote d'Ivoire, Pakistan and Central African Republic. It does however seem anomalous that number 12 on the list should be Bangladesh, a country that has long enjoyed very respectable rates of economic growth, considerable improvements in mass welfare, low rates of violence and crime, and a pattern of governance that, despite the shudders of many external observers, appears relatively popular with most Bangladeshis, and capable of delivering many basic public services. Bangladesh may be a *fragile state* in the sense that there is considerable potential for conflict and disorder. It is not a sensibly placed high on any list of *failed states*.
- There is a persistent danger of 'mission creep' in the way in which the term *failed state* is employed. If it is not to deteriorate into a mode of routinely criticising governments for failing to do one or all of the many things we would like them to do – achieve the Millennium Development Goals, promote economic growth, advance gender equity, ratify and observe any one of dozens of international agreements and codes of conduct – then it is important that the term be used only to refer to failures to perform the *basic* functions of states, e.g. to exercise authority over population and territory, provide basic public goods, enforce law and order, and prevent those who have power from predating on those who do not. But how easy would it be to obtain agreement, in principle and in practice, on what are the basic functions of states, and how far they extend?

In sum, we still have some way to go in identifying and using consistent, coherent concepts to analyse in a practical way the issues around failed/fragile states and in finding measures of those concepts that are reliable, robust, and adequately free from of subjective judgement or bias. The discussion in Section 7 of the internal capacity of states suggests a way of making progress toward the ultimate goal through a different route.

7 Future challenges for European development policy: implications for classifying countries

The previous sections have shown that, despite a proliferation of specialised classifications and rankings, the old developed–developing country distinction remains dominant. We have shown that there is some justification for this if we group countries by average per capita incomes, but none if we look instead at how relationships among different sets of countries are changing in international arenas. Those relationships have changed so much that the old dichotomy has become an obstacle to useful analysis, public debate and development policy.

In thinking about useful alternative classifications, it is important to ask ‘alternatives for whom?’ The concern in this paper is with classifications that would help in debating future European development policy. While the future is hard to predict, there is a substantial consensus on the general parameters that will or should shape future European aid policy.[24] It can be summarised in two main sets of points:

- *Interdependence*: The means which the governments of rich countries use to approach the ‘traditional’ development problem of mass poverty in poor countries will become increasingly intertwined with the instruments they employ to deal with a range of other concerns over how, in an increasingly globalised world, problems left untreated in poor countries and regions can impact adversely on the richer world, through global warming, illicit migration, narcotics production, terrorism, piracy, epidemic disease etc. In other words, aid and development policy will become increasingly integrated with ‘foreign policy’ more generally, while ‘foreign policy’ in turn becomes increasingly broad and encompassing.
- *Networks*: In trying to deal with global problems and challenges, the governments of richer countries will be obliged to work in a highly networked mode with other (newly) powerful agents, often with the aim of changing the rules of political and economic games. The cooperation of a range of

24 Our sources include *Shared Destinies. Security in a Globalised World. The Interim Report of the IPPR Commission on Global Security in the 21st Century*, Institute for Public Policy Research, London, November 2008 and views expressed at horizon scanning and scenario building workshops which we attended at the German Development Institute (Bonn) and at Foresight (London) in late 2008.

influential countries from among the ranks of the former 'developing countries' will be essential, partly because they are increasingly the source of some problems (e.g. climate change), partly because it will be difficult to change international rules without their cooperation, and partly because they exercise influence of various kinds of over smaller, poorer neighbouring countries.

In this context, what classifications of developing countries will be useful for the European 'development' (in the broad sense) policy debate? Income levels will still matter, as a prima facie indicator of potential need for external assistance. There will still be more-or-less unpredictable humanitarian crises that will stimulate large-scale external interventions for a few years. In addition, we believe that two other axes of classification, both already receiving some attention, are likely to prove increasingly useful:

- The **external capacity** of states to influence and work with other states, especially other states in their region.
- The **internal capacity** of states to meet the 'original' (Westphalian) criterion for statehood: the ability to exercise general ('sovereign') authority over their population and territory.

These issues – two sides of the same coin – deserve particular attention as they will be at the core of the general development debate for years to come.

7.1 External state capacity: a classification for regional and global governance

The terms *BRIC*s and *N-11* mentioned in Section 6 represent an attempt to address the emergence of powerful new actors on the international stage (Section 4). They are however labels for sets of identified countries. The concept of 'anchor countries' is a more useful starting point, because it focuses on the roles that more powerful countries might play in relation to other countries in their region. The identifying characteristic of anchor countries is that 'due to their economic weight and political influence, they are playing a growing role in their respective regions, and also increasingly on a global scale, in defining international policies' (BMZ 2004: 3). We will trace briefly where the concept comes from, what it means, and bring out its strengths and weaknesses.

This concept was developed by the German Development Institute in 2004 in response to the ambition of the German Minister for Economic Cooperation to play a more active role on the global stage. Traditionally her Ministry had concentrated on countries and people marginalised from the global economy or those who had become victims of globalisation. She and her team felt that the noble objective of helping these target groups deserved a fresh approach: influencing the way global processes unfolded. But how? She was a member of a Government that had little respect for the unipolar approach of the USA (and its European ally the UK) and was at the same conscious of its limited influence in the world. So the Ministry embraced the idea of working with the new emerging powers. The 'anchor country' concept provided a language and an initial operationalisation, so essential for translating an idea into action. 'Anchor

Countries – Partners for Global Development' was published as a 'BMZ Position Paper' in 2004.[25] Since then BMZ has experimented with this approach, in particular in its work with six 'priority partner countries': India, Pakistan, South Africa, Indonesia, China and Turkey.

Few other bilateral donors have gone this far. Some are even contemplating withdrawing from the anchor countries, in particular from those that have become aid donors themselves, preferring to concentrate entirely on the poorest countries and poorest people in these countries. Meanwhile the difficulty of sticking to this traditional concept of development policy has become very visible. We have stressed this before. The point to add here is that successive global crises in security, food, energy, and finance have led to consultations and summits to which – grudgingly – anchor country governments have been invited. Interestingly the economic crisis of 2008–09, which has its origin in the old powers of North America and Western Europe and threatens to destabilise the global economy, has brought the decisive – and probably lasting – breakthrough. A number of anchor countries have participated in the G20 summits in Washington in November 2008 and in London in April 2009.

In other words, the concept of anchor countries has yet to be established internationally but the idea behind it is beginning to be put into practice. Inevitably, introducing a layer of anchor countries will cause controversy and generate protest from countries which are not given that status. There is an unavoidable trade-off between effectiveness and direct participation. There is no easy solution to this issue, but the global economic crisis of 2008–09 has given momentum to the view that sharing responsibility with anchor countries is an advance on the practice of the old powers deciding and expecting 'the rest' to fall in line.

The concept of anchor countries has strengths and weaknesses. It is an ambitious way of trying to capture new relationships. Interestingly, early attempts to operationalise it are not relational. A country qualifies as an anchor country depending on the size of its national GDP in relation to the GDP of the geographical region in which the country lies. Countries listed on the DAC list of developing and transition countries whose GDP is either the largest in the region or accounts for at least 20 per cent of the remaining GDP once the largest country's GDP is deducted are deemed to be anchor countries. This measure, premised on the belief that large economic size results in a country playing an important role in economic and political development beyond their own borders, identifies 15 anchor countries (listed in Table 7.1). The classification makes no judgment regarding the positive or negative nature of an anchor country's influence but suggests that development cooperation with these countries is essential to achieving goals in regional or global governance.

At first sight it seems odd to use a conventional indicator such as economic size (though related to the size of others) as the criterion for a relational concept. A closer examination, however, suggests that is a reasonably robust way to

25 The groundwork had been carried out by Andreas Stamm (2005) of the German Development Institute.

proceed. The great advantage is that it is simple. And there are no obvious omissions in Table 7.1. Of course there are some countries that are better equipped to play the anchor country role than others, notably China, India and Brazil. At the other end there are at least two doubtful inclusions. Both Pakistan and Nigeria play important roles in their regions, but are fragile states. In considering the usefulness of the concept, it is important to note that an 'anchor country' does not necessarily play an either an active or a positive role in its region. The concept refers to the potential of influencing other countries and this potential is measured by *relative* economic size, as shown above.

Table 7.1 Anchor countries by region

Region	Anchor Countries
East Asia and Pacific	China
	Indonesia
	Thailand
Latin America and Caribbean	Argentina
	Brazil
	Mexico
Europe and Central Asia	Russia
	Turkey
Middle East and North Africa (MENA)	Egypt
	Iran
	Saudi Arabia
South Asia	India
	Pakistan
Sub-Saharan Africa	South Africa
	Nigeria

Source: BMZ (2004), Stamm (2005).

These and other differences between anchor countries need to be acknowledged. They could be used to discredit the concept. Our view is different. The anchor country concept can be operationalised easily and helps to steer the development policy debate in the right direction: away from the old tutelary conception which underlies the donor–recipient distinction, towards a conception of shared responsibility in a multi-polar world. It is true that the capacity of anchor countries to share responsibility varies. Indeed this capacity varies in extent and kind. Only few of them have the capacity to contribute to global governance, but all of them are significant for regional governance. The issues on which they matter also vary. Egypt is a key mediator in the Middle East but of little relevance in climate change negotiations. Saudi Arabia is major player in global energy supply but of little importance in negotiations on global trade rules. More examples could be given. The key general point is that there are **different anchor countries for different domains**.[26]

An unplanned strength of this anchor country classification is that it includes seven Muslim countries: Indonesia, Pakistan, Iran, Turkey, Egypt, Saudi Arabia, and Nigeria.[27] This is a strength because (a) many of the problems that development policy seeks to address are about power and inequality, (b) these problems often have a religious/cultural dimension, (c) conflicts between Muslim and other religions/culture have increased since 11 September 2001, (d) it is very difficult to deal with these religious/cultural issues in a direct way, (e) the anchor country concept gives the key Muslim countries the status required for sharing responsibility in regional and global governance – without making religion/culture the focus of classification and negotiation.

7.2 Internal state capacity: classification for a tax-centric debate

Let us begin with an extract from the speech made by the Angel Gurria, the Secretary General of the OECD, at the recent Doha Conference on development financing:

> … I see three compelling reasons for putting taxation at the centre of the domestic financial resource agenda.
>
> First, taxes provide the long term financial platform for sustainable development. Taxes are the lifeblood of state services.
>
> Second, taxation matters for effective state-building. Bargaining between governments and taxpayers plays a central role in the emergence of democratic governance. Citizens want more responsive government. They want the state to be accountable for its actions or inaction and taxes are the vital link between governments and societies. Improved tax relationships between state, businesses and society have provided a strong underpinning for broad-based growth and state accountability in East Asia, for example …
>
> Third, taxation combined with economic growth is the antidote to long term reliance on aid. As my friend Trevor Manuel has famously said, the correct spelling of the word 'aid' is 'T-A-X'.

This stress on the broader political benefits of government reliance on taxation for its revenues does not reflect a particular passion or passing concern of the speaker or of the OECD as an organisation. It is part of a chorus of concern about the political and governance implications of sources of government revenue in poorer countries that has been rising in volume in recent years. In 2008 alone, in addition to the OECD-DAC document on *Governance, Taxation and Accountability* (OECD-DAC 2008), we identified three other policy papers from international think tanks that made the same kind of argument (Brautigam 2008; Therkildsen 2008; Graham and Bruhn 2008).[28]

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26 Anchor countries do not necessarily take the same view, or operate as a bloc, as shown by Jing Gu, John Humphrey and Dirk Messner (2008) in their analysis of the different ways in which China and India participate in global governance arenas.

27 Labeling Nigeria a 'Muslim country' remains contentious. However, with a population that is roughly half Muslim, the larger point regarding the importance of sharing responsibility across cultural and religious boundaries remains salient.

Why this rising chorus of concern about the political effects of public revenue sources? Let us take first the facts about revenue. For two reasons that we sketched out in Section 4, the global situation has changed considerably in the last three to four decades. One reason is the steady growth and geographical extension of the energy extraction/exporting business, and the very high rents that can be earned by low cost exporters. A substantial number of governments, almost all in poorer or middle income economies, now obtain a large fraction of their income from the rents of exporting oil and gas – and, to a less and more volatile extent, minerals. The second reason is the growing concentration of (generally increasing) levels of development aid on a smaller number of poor countries. Levels of aid dependence are much higher now than, for example, in the 1960s, soon after most African countries achieved independence. We do not have reliable, comprehensive data series on the extent to which either aid or natural resource rents currently fund governments.[29] We know however the approximate magnitudes: for example, Adrian Wood recently estimated that, in 2006 and taking into account only countries with a population of a million people or more, 17 governments (15 in Africa) were receiving at least as much revenue from aid as from tax, and for a further 13 aid revenues were between 50 per cent and 100 per cent of tax revenues (Wood 2008).

The facts about non-tax revenue are clear in outline, if still murky in some detail. What about the implications? These will inevitably be contested: complex causal arguments about comparative national politics and political economy are hard to prove when so many other things about the world are changing; and there is considerable understandable resistance to any suggestion that development aid, now largely given for relatively altruistic purposes, might have significant adverse consequences – in exactly the countries that seem to need it most. It is however clear that a larger and larger number of people are persuaded by the kinds of arguments made above by the OECD Secretary-General: not necessarily that ‘more taxation is good’, but rather that the significant dependence of governments on ‘unearned’ non-tax revenues, like aid and oil, gas and mineral exports, is bad. Indeed, the case is now quite convincingly made, through case studies as well as through cross-country statistical analysis, for the impact of oil and gas revenues (Atkinson and Hamilton 2003; Collier and Hoeffler 2005; Neumayer 2004; Ross 1999, 2001; Sala-I-Martin and Subramanian 2003). There are important exceptions, including Botswana, to a lesser extent Norway and perhaps now Saudi Arabia, but in general, over the last three decades, oil, gas and mineral wealth has generated both economic and political ‘curses’ for the recipients; their economies have grown relatively slowly and they suffer from oppressive, exclusionary (often military) governments that often are not good at maintaining

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28 See also the ‘Pretoria Communiqué’ issued by heads of African tax administrations at ‘Tax Africa. International Conference on Taxation, State Building and Capacity Development in Africa’, Pretoria, 28–9 August 2008 (Tax Africa 2008).

29 Some aid receipts remain off-budget and do not appear in national accounts. Most governments heavily dependent on aid have or make available very inaccurate and incomplete fiscal information. Revenues from natural resources are often kept secret, partly because the governments concerned tend to be authoritarian, and partly because they misuse the money.

law and order. We do not have such clear-cut conclusions for aid, partly because aid donors are generally not keen to continue funding oppressive governments (Collier 2006). The econometricians cannot agree whether there is evidence, on a country-by-country basis, that high aid receipts appear to discourage governments from collecting tax revenues. It is however clear to those in the aid business that tax does appear to governments of poor countries as a preferable option of local revenue raising. Why risk upsetting your people and pose to yourself serious organisational challenges if you can get the money more easily by making a convincing pitch to an aid donor? It is surely no coincidence that, in sub-Saharan Africa, the continent of high general aid dependence, government revenues have been stagnant for more than 25 years once we factor out the benefits to public treasuries of recent high commodity prices (Gupta and Tareq 2008).

The broader argument about the connections between taxation and good government (state capacity, accountability and responsiveness) are made in Moore (2007), and are summarised in Table 7.2. There are however two important points to be made about potential responses, in the context of the concerns of this paper, to the presentation of the ideas in this summary form:

- Our primary concern here is not with the **accountability** of governments to their citizens, but with the effect of revenue sources on (a) the **incentives** of governments and political leaders to behave in certain ways and on (b) the **capacity** of governments to exercise effective control over territory and people. To put the point differently, the underlying assumption is that problems of 'state capacity' are to a major degree the result of the (lack of) incentives for governments to build the political and bureaucratic capacity to achieve certain public goals, not primarily a result of inadequate knowledge, under standing, education, training or resources.[30]
- In poorer countries today, the primary mechanism connecting revenue sources with the quality of governance lies in the incentives that different patterns of funding create for governments and political elites. It does not lie in the (uncertain) effects of different types and levels of tax on the willingness and capacity of citizens to organise to confront and bargain with government. The focal question is not 'Will an increase of X per cent in the income tax burden mobilise citizens effectively?', but 'How will a further increase in already high aid/oil funding of the government affect its incentives to promote private investment, clean up the corrupt tax system, make sure the tax net covers the taxable parts of the informal sector and remote rural regions, recruit meritocratically to the public service, etc?'.

Future European (broad) development policy needs to be concerned with what we are calling the 'internal capacity of states': their ability – and sometimes implicitly their willingness – to make effective use of aid resources and to cooperate in tasks like controlling or eradicating disease, managing migration, or alleviating the likely adverse effects of climate change. This does not imply a complex process of

30 These kinds of arguments are made by many specialists in issues of fragile/failed states (e.g. Bates 2008a and b) and of authoritarian rule (e.g. Corrales 2006).

Table 7.2 The effects on governance of state dependence on broad taxation

Immediate effects	Intermediate effects	Direct governance outcomes
A. The state becomes focused on obtaining revenue by taxing citizens	A. (i) The state is motivated to promote citizen prosperity	More responsiveness
	A. (ii) The state is motivated to develop bureaucratic apparatuses and information sources to collect taxes effectively	More bureaucratic capability
B. The experience of being taxed engages citizens politically	B. (i) (Some) taxpayers mobilise to resist tax demands and/or monitor the mode of taxation and the way the state uses tax revenue	More accountability
C. As a result of A and B, states and citizens begin to bargain over revenues and exchange willing compliance by taxpayers for some institutionalised influence over the level and form of taxation and the uses of revenue (i.e. public policy).*	C. (i) Taxes are more acceptable and predictable, and the taxation process more efficient	More responsiveness, political and bureaucratic capability
	C. (ii) Better public policy results from debate and negotiation	More responsiveness and political capability
	C. (iii) Wider and more professional scrutiny of how public money is spent	More accountability
	C. (iv) The legislature is strengthened relative to the executive (assuming one exists)	More accountability

* Bargaining is especially likely if representative institutions (legislatures) already exist

Source: Moore (2007: 17).

(a) assessing and ranking states according to some notion – or notions – of state capacity; or (b) engaging in the inevitable-but-largely-irresolvable consequent debates about what 'state capacity' means, and whether the correct definition has been used. The task is rather to develop a way of classifying countries in terms of state capacity that is sufficiently robust and reliable that it will permit the identification, with a high degree of certainty, of the **problem cases**, i.e. cases where the government cannot be trusted to use aid funds and/or where it exercises such little effective authority with its territory that it cannot cooperate in the kinds of tasks listed above.

We believe that sources of government revenue will and should be the primary criterion used to do the initial sorting of states in terms of effectiveness. This exercise has never been attempted. The first step could be as simple as scoring countries according to the following procedure:

> per cent of government revenue from general taxation (i.e. excluding natural resource revenues) and public enterprise MINUS per cent of government revenue from aid AND per cent of government revenue from production of 'point' natural resources (oil, gas, minerals and mined diamonds).

The next step would be to see how far the resultant score correlates with some of the more plausible and useful indicators of various concepts of state capacity, using some of the components from data bases such as Polity IV and the World Bank Governance Indicators. That process – and especially a careful case-by-case check on apparently unusual or outlier cases – would give a good indication of whether the basic intuition is correct, and whether it would be justifiable to do more research in order to identify additional indicators. We suspect that an additional explanatory factor might be the extent to which particular regimes have institutionalised support bases in the form of organised ruling parties, or party-like groupings, which encourage political elites to cooperate and to solve their differences internally, so as to maintain political stability.[31] (For the general argument, see Brownlee 2007). This is not to suggest that European aid policy is likely to be actively supporting non-democratic regimes. We assume that democracy and civil rights will remain important foreign policy objectives. The point is simply that, in order to work effectively with or channel resources to some governments, they will require some basic political capacity: the (Westphalian) capacity to rule their territories and populations in a relatively stable way. Non-democratic governments that can do that are generally preferable to non-democratic governments that cannot maintain order, and permit conflict and banditry – the actual alternative facing some poor parts of the world today.[32]

While the reason for focusing on public revenue is now well established, the elaboration and testing of corresponding indicators requires further research and experimentation. A clear numerical indicator would help to bring about a shift from an aid-centric to a tax-centric debate. Note that the concern here is not with resource mobilisation as an objective in itself. The purpose of the suggested indicator is to concentrate attention on the relationships between citizens/

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31 Conversely, it is likely that, even taking account of public revenue sources, basic state capacity is especially low in those countries where political elites are heavily exposed to the temptations to engage in illegal activities in general, and the narcotics trade in particular.

32 This conception of using government revenue sources as indicators of basic state capacity clearly links to our earlier discussion of 'anchor countries'. Those larger potential anchor countries whose governments are funded from oil and gas revenues – notably Russia, Iran and Venezuela – tend to suffer from political instability, and appear less reliable as partners than, say, China, India or Brazil.

enterprises and governments – so essential for strengthening state capacity.[33] Such a country classification, focused on the sources of public revenue, would be of practical importance and help reorient the behaviour and incentives of governments and development agencies.

Appendix: National performance indicators and rankings

1. African Governance Indicator
2. Ageing Vulnerability Index
3. AIDS Program Effort Index (API)
4. Alternative Country-Risk Index (Indice de Riesgo Pais Alternativo – IRPA)
5. APESMA Big Mac Index
6. Assessing the Achievement of the Millennium Development Goals (MDGs)
7. Basic Capabilities Index (BCI) – Previously 'Quality of Life Index'
8. Bertelsmann Transformation Index (BTI)
9. BIC3D Index
10. Big Mac Index
11. BradyNet Ratings Ladder
12. Bribe Payers Index (BPI)
13. Capital Access Index (CAI)
14. CIRI Human Rights Dataset
15. Climate Analysis Indicators Tool (CAIT)
16. Climate Change Performance Index (CCPI)
17. Commitment to Development Index (CDI)
18. Composite Score of Risk – Business Risk Service (BRS)
19. Corruption Perception Index (CPI)
20. Countries at the Crossroads
21. Country @ratings
22. Country Indicators for Foreign Policy (CIFP)
23. Country Performance Assessment (CPA)
24. Country Policy and Institutional Assessment and IDA Country Performance Ratings
25. Country Risk Evaluation and Assessment Model (CREAM) Country Index
26. Country Risk Monitoring Service
27. Country Risk Rating
28. CSGR Globalisation Index
29. Dashboard of Sustainability
30. Democracy Score (Nations in Transit Ratings)
31. Disaster Risk Index (DRI)
32. Ducroire / Delcredere Country Risks
33. Early Motherhood Risk Ranking

33 Useful indicators for internal and external resource mobilisation have been put forward by Sagasti *et al.* (2005), but their prime concern was development financing.

34. Ease of Doing Business
35. E-Business Readiness Index
36. Ecological Footprint
37. Economic Freedom of the Word (EFW) Index
38. Economic Vulnerability Index
39. Education for all Development Index (EDI)
40. E-Government Index
41. E-Government Readiness Index
42. EIU Business Environment Rankings
43. EIU Country Risk Rating
44. EIU World Wide Cost of Living Index
45. Emerging Markets Bond Indices
46. Environmental Degradation Index (EDI)
47. Environmental Performance Index (EPI)
48. Environmental Sustainability Index (ESI
49. Environmental Vulnerability Index (EVI) (In process)
50. E-Participation Index
51. E-Readiness Rankings
52. ERG Country Classification
53. Ethics Indices
54. Ethno-linguistic and Religious Fractionalization Index and Political Instability Index
55. Eurochambres Economic Survey (EES) Indicators
56. European Innovation Scoreboard (EIS) and Summary Innovation Index (SII)
57. Failed States Index
58. Financial Times Credit Ratings
59. Food Insecurity
60. Forbes Capital Hospitality Index (FCHI)
61. Foreign Direct Investment Confidence Index
62. FORELEND – Lender's risk rating
63. Gender Empowerment Measure (GEM)
64. Gender Equity Index (GEI)
65. Gender Gaps
66. Gender Gaps Scores in Education
67. Gender-related Development Index (GDI)
68. G-Index (Globalization Index)
69. G-Index (Globalization Index)
70. Global Civil Society Index (GCSI) -pilot
71. Global Climate Risk Index
72. Global Competitiveness Index
73. Global Entrepreneurship Monitor
74. Global Hunger Index (GHI)
75. Global Integrity Index
76. Global Investment Prospects Assessment (GIPA)
77. Global Natural Disasters Risk Hotspots
78. Global Peace Index (GPI)
79. Global Production Scoreboard
80. Global Quality of Living
81. Global Retail Development Index (GRDI)

82. Global Risk Service
83. Global Terrorism Index
84. Governance Indicators
85. Grey Area Dynamics (GAD)
86. Happiness Index
87. Happy Planet Index (HPI)
88. High Tech Indicators (HTI) – Technological Standing
89. Human Development Index (HDI)
90. Human Poverty Index (HPI)
91. Human Rights Commitment Index
92. Humanitarian Response Index
93. Ibrahim Index of African Governance
94. ICT Opportunity Index (replaces the Digital Access Index)
95. Index Measuring the Strictness of Employment Protection Legislation (EPL)
96. Index of Economic Freedom
97. Index of Human Insecurity
98. Index of Human Progress
99. Index of Knowledge Societies (IKS)
100. Index of Social Vulnerability to Climate Change (SVI)
101. Index of State Weakness in the Developing World
102. Innovation Capacity Index
103. Institutional Investor Country Credit ratings
104. Internal Market Scoreboard and Internal Market Index
105. International Country Risk Guide (ICRG) Ratings – Composite Risk Rating
106. International Index of Social Progress (ISP)
107. Investment and Performance in the Knowledge Based Economy
108. Inward FDI Performance Index
109. Inward FDI Potential Index
110. Latin American Index of Budget Transparency
111. KOF Index of Globalization
112. ITU Digital Access Index (DAI)
113. Least Secure Countries
114. Lisbon Scorecard
115. Living Planet Index (LPI)
116. McKinsey Global Confidence Index
117. Major Military Spenders
118. Media Sustainability Index (MSI)
119. Millennium Challenge Account country rankings
120. Mineral Extraction Risk Assessment (MERA)
121. Mother's Index
122. National Biodiversity Index (NBI)
123. Networked Readiness Index (NRI)
124. Official Development Assistance (ODA) Rankings
125. Offshore Location Attractiveness Index
126. Opacity Index (O-Factor)
127. Open Budget Index
128. Outward FDI Performance Index
129. Overall Health System Achievement Index
130. Overall Health System Performance Index

131. Overall Market Potential Index
132. Oxfam Survey of Donor Practices
133. Peace and Conflict Instability Ledger
134. Political and Economic Risk Map
135. Political Rights and Civil Liberties Ratings
136. Political Terror Scale (PTS)
137. Polity IV Country Scores
138. Pollution-Sensitive Human Development Index (HDPI)
139. Press Freedom Index
140. Programme for International Student Assessment (PISA)
141. Progress in International Reading Literacy Study (PIRLS)
142. Pro-Poor Policy (PPP) Index
143. Public Integrity Index
144. Qualitative Risk Measure in Foreign Lending (QLM-FE) – Financial Ethics Index
145. Quality of Life Index
146. Quality of Workforce Index (QWI)
147. Reproductive Risk Index
148. Responsible Competitiveness Index
149. Science and Technology Indicators
150. Social Watch Scorecard – Thematic areas
151. Sovereign Credit Rating (Fitch)
152. Sovereign Credit Rating (Moody)
153. Sovereign Credit Rating (Standard and Poor's)
154. Sovereign Credit Rating (WMRC)
155. Sovereign Risk Rating
156. Stability Index
157. State Fragility Index
158. Sustainability Index
159. Sustainable Society Index (SSI)
160. Tax Misery and Reform Index
161. Technology Achievement Index
162. The Observer Human Rights Index
163. Total Wealth and Genuine Savings
164. Tourism Competitiveness Monitor
165. Trade and Development Index (TDI)
166. Transnationality Index of Host Economies
167. Trends in International Mathematics and Science Study (TIMSS)
168. Under Five Mortality Rank – U5MR (Child Welfare)
169. Water Poverty Index (WPI)
170. Wealth of Nations Triangle Index
171. Welfare Index
172. Wellbeing Indices
173. World City Networks – Global Network Connectivity Rankings
174. World Competitiveness Scoreboard
175. World Cue PRO
176. World Governance Assessment
177. World Military Expenditures and Arms Transfers Rankings
178. World Press Freedom Ranking

Source: Bandura (2008).

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