The “Third World” in the 1990s: Problems and challenges


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Given that the developing countries today present a highly differentiated picture, is it appropriate to continue to speak of a "Third World"? If so, how does this group of countries appear to the present-day observer? What is their position within the world economy? What problems and challenges are they facing?

A n analysis of the present state of the world economy has to start from the truism that the world of the 1990s has become a complex entity. Quite apart from the changes which have occurred in the geopolitical map, major problems now need to be viewed in a different light. Aspects which could previously be regarded as a variation on the standard growth problems facing market or centrally planned economies, or the general policy problems facing rich or poor countries, now need to be viewed as part of a set of problems which will call for different remedial measures depending on the particular national, geographic, economic and social circumstances of the area.

Pronounced Differentiation

This diagnosis certainly also applies to those parts of the globe which have come to be known as the "Third World". Quite apart from the fact that the centre of gravity in the world economy shifted still further to these countries' detriment during the 1980s, the "Third World" itself underwent pronounced differentiation. Some of the countries concerned have by now virtually attained the status of industrial countries, and are developing rapidly both economically and socially; others, which unfortunately make up the majority, have been left standing at various low levels of development, and can only turn their potential into actual development with great difficulty. Others still are suffering from rapid decline even in their development potential, which is likely to lead to political and economic disasters in the longer term.

It soon springs to notice that problem cases tend to be grouped geographically. Extreme economic stagnation is particularly prevalent in Africa, and again mainly in sub-Saharan Africa (excluding South Africa). Taking the continent as a whole, 12% of the world's population generated only just over 2% of world GNP in 1989, and if the North African countries and South Africa are taken out of the sums, something over 9% of the world population in the remaining countries did not even generate 1% of world GNP. Per capita incomes are in decline in many countries of sub-Saharan Africa. The average annual per capita income was at or below $500 in 1989, the average daily calorie intake was less than 2,300, and the average life expectancy was 50 years, while the highest achieved in any of the countries concerned was 65.

In the other two developing continents, on the other hand, the picture is a much more varied one. China and India are the dominant nations in Asia as far as sheer population size is concerned, taking up a little over 37% of the world population between them in 1989, but only 3.5% of world GNP. By way of contrast, the Asian "tiger nations" (South Korea, Taiwan, Hong Kong and Singapore) accounted for 1.4% of world population but generated 2.2% of total GNP. The other social welfare parameters of these newly industrializing countries are also substantially superior to those of China and India, where

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1 In 1980, approximately 74% of the world population lived in the "Third World", generating approximately 23% of world GNP; by 1989, the population share had risen to approximately 76% but the share of world GNP was down to only just under 17%. Cf. A. J. Halbach: Industrieländer und Entwicklungsländer: Wächst die Klüt?, in: ifoSchnelldienst, Vol. 44 (1991), pp. 3 ff. (esp. p. 3).
3 Cf. A. J. Halbach, op. cit., pp. 4 ff. The corresponding indicators for industrial countries are $12,000-$27,000; 3,000 calories per day; and 75 years or over. Cf. World Bank: World Development Report 1990: Poverty, Washington D.C., pp. 20 ff.
extreme poverty is found at least in parts of society. Thailand, Malaysia and also (with certain reservations) the Philippines and Indonesia make up another group of rapidly advancing countries whose economic growth and social progress nevertheless must still be regarded as somewhat fragile. Whatever the differences from country to country, however, there can be no doubt that Asia is currently the world's fastest developing region.

Unfortunately, no similar claim can be made for Latin America, with the possible exception of Mexico. Admittedly, countries such as Brazil, Argentina, Chile, Venezuela and Colombia have a relatively high level of development. The poor countries of the Andes region and Central America present a contrasting picture, being trapped in economic stagnation with per capita income indicators declining over time, and living conditions rapidly deteriorating. The outlook, too, is for a clear continuation of the downward trend: excessive debt, balance-of-payments problems, uncontrollable inflation and social crises will continue to manifest their distressing effects.

Given such sharp differences among developing countries, is it at all appropriate to continue to speak of a "Third World"? Certainly, what used to be the conventional politico-economic subdivision of the world into three different Cold War camps can now be considered obsolete. However, if the "three worlds" are defined in terms of their respective development problems, the subdivision is by all means tenable. For, in slightly oversimplified terms, the essential problem facing the old-established industrial countries (the "First World") can be said to be the compulsion to develop intensively with an increasing shortage of resources; that of the former Soviet-bloc countries (the "Second World") may be defined as the compulsion to renew economic capacity under increasing socio-political pressure. The central problem of the developing countries, meanwhile — whatever their absolute level of development — is the compulsion to develop resources under strong, often rapidly increasing population pressure. When the groups of countries are reduced to these common denominators, continued reference to a "Third World" group within the world economy and world society, however disparate it may be, can indeed be justified.

Lost Ground in International Trade

As a general point, the economies of the developing countries have become manifestly more open during the past decade. The change has come about both because of pressure exerted upon highly indebted countries by international financial institutions and because of a realization that the import-substitution strategies often previously followed are of limited use in the long run. Despite this change, however, the majority of developing countries have not managed to enhance their relative position in world trade, whether by increasing their trade with industrial countries or expanding trade among one another. The developing countries' exports, which had risen to approximately 30% of the world's aggregate exports by 1980, had again fallen back to 23% by 1989. The poorest Third World countries have lost ground in absolute terms in this process, as their share in world exports has declined to no more than 0.3%. The highly indebted developing countries have also fallen back in absolute terms. Only Asia's newly industrializing countries have managed to keep pace with the expansion of world trade, and their share of the total almost doubled during the decade to reach 8.1% in 1989.

The causes underlying these trends can be traced to the fact that the expansion of international trade during the last decade has been achieved exclusively by increases in the exchange of manufactured goods and services. The share of manufactured goods in total exports has risen in many countries, especially in Asia. Apart from the Asian NICs, however, Third World countries have continued to play a minor role in this market segment. Nor has South-South trade fulfilled the expectations that had been placed in it. South-South trade has not so much resulted from developing countries' deliberately building up markets in other Third World countries as from the fact that they found themselves closed out of industrial countries' markets by protectionist barriers to trade. Many countries in sub-Saharan Africa have also been badly affected which used to export simple consumer goods and raw materials to the Soviet bloc but now find themselves in an almost hopeless situation due to a combination of protectionism, particularly by the European Union, and the restructuring now occurring in Eastern Europe.
High Level of Foreign Debt

Summing up, Third World countries have been losing ground in international trade in goods and services. However, this is not the only reason why their situation is unsatisfactory, not to say desperate in some cases. The world’s capital flows, too, have tended increasingly to bypass them. Foreign direct investment has now become almost the exclusive domain of the so-called “triad” of industrial regions (Europe, USA, Japan), not only as the source of the vast majority of investment, but also as recipients. At present, less than 20% of all new foreign investment flows to the countries of the Third World. A particularly pronounced fall-off has occurred in the attractiveness of African and most South American countries. On the other hand, the Asian “tigers”, plus China, Malaysia, Thailand, Brazil, Colombia and Mexico are the preferred target countries for Japanese investors in particular. Investment originating in Third World countries and placed in others has indeed grown in absolute terms, but this is still no more than a marginal quantity relative to total world direct investment.

Consequently, debt financing is the only means available to most developing countries for mobilizing capital inflows. The overall debt situation has now begun to ease somewhat. The rapid increase in external debt began to moderate in 1987, and the Third World countries’ level of indebtedness has increased by an average of only 2% per annum since then. According to the World Bank, it had reached an overall total of $1,300 billion by 1990. The fact that the expansion of the total stock of debt has eased back is largely a result of the rescheduling and debt relief measures which have increased substantially in recent years, especially since the 1989 Brady Plan. Even so, many debtor countries’ situations will remain problematic for some years to come. Such countries include Argentina, Bolivia, Brazil, Ethiopia, Uganda, Jordan, Panama, and also India, while the positions of Mexico, Costa Rica, the Philippines and Morocco have improved. As a general observation, the process of debt relief and restructuring has meant that private-sector sources of capital now play a less prominent role while that of public transfer payments has grown more significant. This is quite a worrying situation. What it indicates is that the majority of Third World countries have not yet succeeded in restoring their creditworthiness from the private sector’s viewpoint, and hence have not fulfilled an essential precondition for gaining access to international capital markets.

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Andreas Tegge

Die Internationale Telekommunikations-Union

Organisation und Funktion einer Weltorganisation im Wandel

The ITU is the regulatory body and central forum for cooperation in the field of international telecommunications. Governments and the telecommunications industry reach agreement in this world organization in regard to regulations and standards for global telecommunications traffic. The main tasks of the ITU are the establishment of principles governing tariffs and clearance payments, the standardization of telecommunications services and equipment, the allocation of radio frequencies and satellite orbits, and development assistance in telecommunications. The ITU is facing the greatest challenge in its history in the wake of a world-wide deregulation of telecommunications. This monograph surveys the structure and operation of the ITU, its reform efforts and its future role in a market-driven world telecommunications order. This is also the first comprehensive German-language work on the ITU, besides being a contribution to the law and political economy of international organizations. This work is intended for legal scholars, economists, political scientists, and practitioners in the fields of politics and the economy.


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Nevertheless, the generally high level of foreign debt does not prove an obstacle to development in all instances. In fact, some countries did manage to uphold relatively high domestic savings and investment activity even during the debt crisis in the early 1980s, whereas in others which had difficulty in servicing their debts people had no choice but to accept a distinct fall-off in savings and investment alike. Once again, as one might expect, most of the countries in the former category are in Asia, while those in the latter group are largely in South America or Africa. It is true, on the one hand, that the IMF has forecast a significant increase in all groups of countries' domestic savings and investment by the mid-1990s. However, the fear must be that only the Asian countries with their strong growth rates will achieve satisfactory results. There is a quite obvious positive link, frequently confirmed by empirical findings, between a country's ability to make efficient use of its resources and to form capital internally on the one hand and its international credit standing on the other. There is a great deal to suggest that domestically generated savings enhance a country's attractiveness for international direct investment and private-sector lending.

The type of economic policy pursued by individual Third World countries is a crucial factor in whether or not they can benefit from participation in the world economy: experience has shown that liberalizing foreign trade, deregulating financial markets, enhancing the efficiency of the tax system and establishing a strictly anti-inflationary structure for the monetary system accompanied by corresponding monetary policy can all help to alleviate, if not eliminate, the causes of low internal savings, investment and productivity. A pessimistic view, however needs to be taken of Africa's prospects in this regard, for the available information suggests that this continent really is on the way towards dropping out of the world economy. The other Third World countries, though, will probably be able to activate their development potential by means of structural reforms and get back into touch with the world economy provided that they pursue appropriate economic and social policies.

Population Growth

There are two important sets of problems which haunt all Third World countries, though naturally to a varying extent. The first, which particularly affects the poorer countries, has its roots in the unfavourable relationship between population growth and the development of resources. The second, which is more prevalent in the more advanced countries, follows from the links between government failure and socio-economic obstacles to development. Without doubt, population growth is one of the most prominent phenomena in the Third World today. According to United Nations forecasts, the Third World countries' share of the world population, currently standing at approximately 77%, is likely to grow to 84% in the year 2025. By way of contrast, Europe's share of the world population is expected to be down to just 9% by the same year. Underlying these broad proportional shifts are substantial differentials in the rate of population growth. Around 1990, the average rate of population growth for all Third World countries was estimated at 2.1% per annum, while that of the industrial countries was only 0.5% p.a. The highest growth rates were found in West Africa (3.3% p.a.) and the Middle East (2.7% p.a.). Population growth was slowest in eastern Asia, particularly China, at 1.3% p.a. South America, with a population growing at 1.9% p.a. overall, occupies a middle position.

From a purely technical point of view, these statistics are not surprising. Whereas the momentum of population growth passed through the phase of "demographic transition" some time ago in all industrial countries and has just passed through it in the eastern Asian countries, most Third World countries are still in the midst of it; what this means is that death rates have already come down while birth rates remain high, creating explosive population growth. The gap between birth and death rates is now at its highest in Africa—hence the peak rates of population growth recorded there—whereas the countries of South and Central America are now tending to approach the "late transformational" phase.

These objective figures cannot, however, serve as a justification for the disaster scenarios which are so willingly proffered in political debates. Looked at purely statistically, population growth must not necessarily be so menacing provided that the development of other factors vital to the survival of humanity is kept in proportion. The WHO/FAO estimate that there is no cause at present to doubt the Earth's ability to "bear the load". Provided that

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19 H. Mertens, op. cit., pp. 188ff.
the positive trend in world agricultural productivity can persist during the next fifty years, it will still be possible to feed more than the world population of 10 billion expected by that time, even leaving some agricultural productive potential unused.

**Socio-economic Sustainability**

Even so, “man does not live by bread alone”, but by having access to food and the other necessities of life. In other words, the supplies of food which are available in theory need to be converted into quality of life for people in practice. Contrary to what is suggested by conventional theorems on the “population trap”, which are based on a mechanistic interdependence between economic and population growth, it is also necessary to give consideration to components of socio-economic sustainability which are essentially derived from properly functioning systems of production and distribution within society and from appropriate regulatory and control mechanisms. If the latter conditions are not fulfilled, even in the rather better-endowed Third World countries existing socio-economic systems can be subjected to severe stress, threatening their very existence.

This has been clearly demonstrated, for example, in the countries of North Africa. During the period from 1975 to 1990, the population of Algeria grew at an average annual rate of 3%, that of Libya by 4.3% p.a., Morocco 2.7% p.a., and Tunisia and Egypt each by 2.6% p.a. Even just to fully employ the new entrants to the labour force, this would have required 180-200,000 new jobs each year in Algeria, 160,000 in Morocco, and 60-70,000 in Tunisia. Against that requirement, the actual number of jobs created annually was in the order of 100,000, 115,000 and 45,000 respectively. Under these circumstances, there was a cumulative increase in the employment shortfall, making large-scale unemployment a normal feature just as it is in many other Third World countries: it now has to be assumed that at least 40% of the active population is without productive employment in North Africa. The rate of youth unemployment in Algeria is approximately 80%, in Morocco 70% and in Tunisia 50%.

The general public’s quality of life in those cities in particular which are growing so explosively (and not only in North Africa), is in unrelenting decline. More and more people are now living in the continually spreading slums and squatters’ districts with their inadequate infrastructure. Both inside and outside the urban agglomerations, the growing volume of traffic and the rapidly growing supply and waste disposal problems are causing a serious deterioration in the living environment, especially due to pollution of drinking water and soil contamination.

Conditions are not much better in the rural areas, where systems are often stretched beyond their capacity to cope. Such system deficiencies are almost hopelessly engrained in the case of rural mass poverty, for in tribal areas or geographically unfavourable areas, in particular, this problem can be still more acute than in the cities, where at least there is a better chance of gaining access to informal means of obtaining a living and to public services. The rural poor, who are normally only able to wrest a living from nature using extensive methods, thus also cause lasting destruction of the natural habitat, which cannot be averted because there is little alternative.

Conditions such as these are an especially telling part of the scene in many countries of sub-Saharan Africa and southern Asia. Especially in these regions, governments often lack the will, and usually the means, to improve socio-economic sustainability by means of structural reforms. Very important in this respect is the implementation of suitable programmes in the fields of education, health care and environmental policy, for only then can a sustainable improvement in people’s living conditions be attained. A further step which is at least as important is to overcome the structural heterogeneity which paralyses the economic and social systems of many of these countries and renders poverty a permanent feature, by building up properly functioning systems of production and distribution. Finally, political reforms aimed at reducing bureaucracy and making conditions more flexible are an essential prerequisite for being able to break out of the behavioural vicious circles of poverty, resource destruction and population pressure once and for all.

The challenge arising from this situation is of course essentially a humanitarian one. The first thing the industrial countries need to do in order to meet it is to accept that the countries of Black Africa in particular are cases for treatment by a worldwide social policy. The

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24 The population of North Africa’s cities doubled between 1950 and 1985. About 45% of the population now lives in the cities in Algeria, 70% in Libya, approximately 50% in Morocco and approximately 60% in Tunisia. Similar conditions prevail in South America and the Middle East. On this, cf. Stiftung Entwicklung und Frieden, op. cit., pp. 81 ff.
25 World Bank, op. cit., p. 36.
27 World Bank, op. cit., pp. 48 ff.
instruments available for such “poverty-oriented aid” to include debt relief for highly indebted, poor countries, food and disaster aid, and carrying out fundamental mobilization campaigns. However, much more thorough policy reforms are really needed to avoid such campaigns becoming bogged down, petering out, or their benefits falling into the wrong hands.

Government Failure

That brings us to the second problem which cross-cuts most of the Third World countries (though again, to varying degrees of intensity), namely the link between government failure and obstacles to development. Once again, the case of North Africa serves as a useful illustration: it is now clearly apparent in these countries that the “governing classes” (Staatsklassen) who set the tone in society – often originating from anti-colonial, nationalist movements of the past – have by now degenerated into bureaucratic cartels, the chief raison d’être of which is to hold on to power, and to try to appropriate government income for their own pensions or to channel it into prestige projects and arms purchases which again serve their own maintenance of power. In view of the instability endemic to many North African or other Third World countries and also of the uncertain financial position of politicians this may be quite understandable, as also may be the fact that the wealth they accumulate is normally invested in safe industrial countries.

Understandable it may be, but it certainly is not helpful to the local economy. Cases such as this hinder the development of market institutions, for the use of economic means with all the expense and risk that entails can never assert itself against the use of pure force. Thus the economic system, as a system within society operating according to its own logic, is never given the chance to become emancipated from the political system, and such emancipation is really a fundamental prerequisite for any kind of socio-economic modernization. If, as a result of this basic deficiency, there is a tendency for spurious democracies and spurious market economies to develop, any policy of structural adjustment to deal with the changing world economy and world society will inevitably remain ineffective.

In such cases, policies relevant to the economy in the better-off Third World countries follow a course which jeopardizes the establishment of effective institutions and the implementation of development and stabilization measures oriented to generally accepted objectives. Consequently, there is little willingness among any of the groups that matter to sacrifice their own particular, short-term interests in order to achieve long-term gains which would benefit all of society. That makes it impossible either to ensure that the actions taken by those involved in political processes are sufficiently development-oriented or to establish some coherence among the various policy areas. Tendencies for the political system to get in the way of progress, however, have been most evident in the wake of failed debt reduction and stabilization programmes in the large South American countries. In such cases, it is chiefly up to the industrial countries to apply new forms of development cooperation in the fields of policy consultancy and institution-building. Not only can top-level political advice for Third World countries prove helpful in this regard, but also the involvement of these countries in worldwide reform processes as responsible, equal-ranking partners. It would of course be wishful thinking to expect international policy coordination to act as a cure-all which could release the global and local political log-jams. Yet to the extent that it is now recognized that the world economy, world politics and world ecology are zero-sum games in which the best that can be done is to share out what we have as a result of what others have gone without in the past, all participants in world society would be well advised to seek to solve such problems by policy cooperation on as rational a basis as possible.

In this respect, the industrial countries need to set a good example and lead the way, even if they do face a double burden at present following the collapse of the “Second World”. The more understanding and far-sighted we can be in helping the developing countries to progress, and the more valuable and indispensable the services we render them as advisors and teachers, yet with a willingness also to learn from them, the more secure will be the lives of our children and our children’s children in the year 2000 and beyond.

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26 This is the term used by R. Nunnenkamp, op. cit., p. 194.