

## 3.4: Developing World

### Learning Objectives

1. Understand what the developing world is.
2. Identify the major developing economies and regions.

### The Developing World

The **developing world** refers to countries that rank lower on the various classifications from [Section 4.1](#). The residents of these economies tend to have lower discretionary income to spend on nonessential goods (i.e., goods beyond food, housing, clothing, and other necessities). Many people, particularly those in developing countries, often find the classifications limiting or judgmental. The intent here is to focus on understanding the information that a global business professional will need to determine whether a country, including a developing country, offers an interesting local market. Some countries may perceive the classification as a slight; others view it as a benefit. For example, in global trade, being a developing country sometimes provides preferences and extra time to meet any requirements dismantling trade barriers.

[In the World Trade Organization (WTO), there are no WTO definitions of “developed” and “developing” countries. Members announce for themselves whether they are “developed” or “developing” countries. However, other members can challenge the decision of a member to make use of provisions available to developing countries.

Developing country status in the WTO brings certain rights. There are for example provisions in some WTO Agreements which provide developing countries with longer transition periods before they are required to fully implement the agreement and developing countries can receive technical assistance.

That a WTO member announces itself as a developing country does not automatically mean that it will benefit from the unilateral preference schemes of some of the developed country members such as the Generalized System of Preferences (GSP). In practice, it is the preference giving country which decides the list of developing countries that will benefit from the preferences. “Who Are the Developing Countries in the WTO?” World Trade Organization, accessed January 5, 2011, [http://www.wto.org/english/tratop\\_e/devel\\_e/d1who\\_e.htm](http://www.wto.org/english/tratop_e/devel_e/d1who_e.htm).

Developing countries sometimes find that their economies improve and gradually they become emerging markets. ([Section 4.4](#) discusses emerging markets.) Many developing economies represent old cultures and rich histories. Focusing only on today’s political, economic, and social conditions distorts the picture of what these countries have been and what they might become again. This category hosts the greatest number of countries around the world.

### Did You Know?

It’s important to understand that the term *developing countries* is different from Third-World countries, which was a traditional classification for countries along political and economic lines. It helps to understand how this terminology has evolved.

When people talk about the poorest countries of the world, they often refer to them with the general term Third World, and they think everybody knows what they are talking about. But when you ask them if there is a Third World, what about a Second or a First World, you almost always get an evasive answer...

The use of the terms First, the Second, and the Third World is a rough, and it’s safe to say, outdated model of the geopolitical world from the time of the cold war.

There is no official definition of the first, second, and the third world. Below is OWNO’s [One World—Nations Online] explanation of the terms...

After World War II the world split into two large geopolitical blocs and spheres of influence with contrary views on government and the politically correct society:

1. The bloc of democratic-industrial countries within the American influence sphere, the “First World.”
2. The Eastern bloc of the communist-socialist states, the “Second World.”
3. The remaining three-quarters of the world’s population, states not aligned with either bloc were regarded as the “Third World.”

4. The term “Fourth World,” coined in the early 1970s by Shuswap Chief George Manuel, refers to widely unknown nations (cultural entities) of indigenous peoples, “First Nations” living within or across national state boundaries...

The term “First World” refers to so-called developed, *capitalist*, industrial countries, roughly, a bloc of countries aligned with the United States after World War II, with more or less common political and economic interests: North America, Western Europe, Japan and Australia. “Worlds within the World?,” One World—Nations Online, accessed January 5, 2011, [www.nationsonline.org/oneworld/third\\_world\\_countries.htm](http://www.nationsonline.org/oneworld/third_world_countries.htm).

Developing economies typically have poor, inadequate, or unequal access to infrastructure. The low personal incomes result in a high degree of poverty, as measured by the human poverty index (HPI) from [Section 4.1](#). These countries, unlike the developed economies, don’t have mature and competitive industries. Rather, the economies usually rely heavily on one or more key industries—often related to commodities, like oil, minerals mining, or agriculture. Many of the developing countries today are in Africa, parts of Asia, the Middle East, parts of Latin America, and parts of Eastern Europe.

Developing countries can seem like an oxymoron in terms of technology. In daily life, high-tech capabilities in manufacturing coexist alongside antiquated methodologies. Technology has caused an evolution of change in just a decade or two. For example, twenty years ago, a passerby looking at the metal shanties on the sides of the streets of Mumbai, India, or Jakarta, Indonesia, would see abject poverty in terms of the living conditions; today, that same passerby peering inside the small huts would see the flicker of a computer screen and almost all the urban dwellers—in and around the shanties—sporting cell phones. Installing traditional telephone infrastructure was more costly and time-consuming for governments, and consumers opted for the faster and relatively cheaper option of cell phones.

### Did You Know?

#### Gillette’s Innovative Razor Sales

Companies find innovative ways to sell to developing world markets. Procter & Gamble (P&G)’s latest innovation is a Gillette-brand eleven-cent blade. “Gillette commands about 70 percent of the world’s razor and blade sales, but it lags behind rivals in India and other developing markets, mainly because those consumers can’t afford to buy its flagship products.” Ellen Byron, “Gillette’s Latest Innovation in Razors: The 11-Cent Blade,” *Wall Street Journal*, October 1, 2010, accessed January 5, 2011, <http://online.wsj.com/article/SB10001424052748704789404575524273890970954.html>. The company has designed a basic blade, called the Gillette Guard, that isn’t available in the United States or other richer economies. The blade is designed for the developing world, with the goal of bringing “more consumers into Gillette,” says Alberto Carvalho, P&G’s vice president of male grooming in emerging markets...Winning over low-income consumers in developing markets is crucial to the growth strategy....The need to grow in emerging markets is pushing P&G to change its product development strategy. In the past, P&G would sell basically the same premium Pampers diapers, Crest toothpaste, or Olay moisturizers in developing countries, where only the wealthiest consumers could afford them.” Ellen Byron, “Gillette’s Latest Innovation in Razors: The 11-Cent Blade,” *Wall Street Journal*, October 1, 2010, accessed January 5, 2011, <http://online.wsj.com/article/SB10001424052748704789404575524273890970954.html>. The company’s approach now is to determine what the consumers can afford in each country and adjust the product features to meet the target price.

Global companies also recognize that in many developing countries, the local government is the buyer—particularly for higher value-added products and services, such as high-tech items, equipment, and infrastructure development. In addition, companies assess the political and economic environment in order to evaluate the risks and opportunities for business in managing key government relationships. (For more information on international trade, see Chapter 2, [Section 2.1](#) and Chapter 2, [Section 2.2](#).) In much of Africa and the Middle East, where the economies rely on one or two key industries, the governments remain heavily involved in sourcing and awarding key contracts. The lack of competitive domestic industry and local transparency has also made these economies ripe for graft. The sections that follow are excerpted in part from two resources owned by author Sanjyot P. Dunung’s firm, Atma Global: *CultureQuest Business Multimedia Series* and *bWise: Business Wisdom Worldwide*. The excerpts are reprinted with permission and attributed to the country-specific product when appropriate.

### Ethics in Action

Studies have shown that developing countries that are known to be rich in hydrocarbons [mainly oil] are plagued with corruption and environmental pollution. Paradoxically, most extractive resource-rich developing countries are found in the bottom third of the World Bank’s composite governance indicator rankings. Again, on the Transparency International Corruption Perception Index (CPI), 2007—most of the countries found at the bottom of the table are rich in mineral resources. This is indicative of high prevalence of corruption in these countries. Gilbert Sam, “Ghana’s Oil Find: Benefits and Nightmares,” *Daily Guide*, April 30,

2009, reprinted on Modern Ghana website, accessed January 5, 2011, [www.modernghana.com/news/213863/1/ghanas-oil-find-benefits-and-nightmares.html](http://www.modernghana.com/news/213863/1/ghanas-oil-find-benefits-and-nightmares.html).

## Major Developing Economies and Regions

### The Middle East

The Middle East presents an interesting challenge and opportunity for global businesses. Thanks in large part to the oil-dependent economies, some of these countries are quite wealthy. Figure 4.2 in [Section 4.1](#) shows the per capita gross domestic product (GDP) adjusted for purchasing power parity (PPP) for select countries. Interestingly enough Qatar, Kuwait, United Arab Emirates (UAE), and Bahrain all rank in the top twenty-five. Only Saudi Arabia ranks much lower, due mainly to its larger population; however, it still has a per capita GDP (PPP) twice as high as the global average.

While the income level suggests a strong opportunity for global businesses, the inequality of access to goods and services, along with an inadequate and uncompetitive local economy, present both concerns and opportunities. Many of these countries are making efforts to shift from being an oil-dependent economy to a more service-based economy. Dubai, one of the seven emirates in the UAE, has sought to be the premier financial center for the Middle East. The financial crisis of 2008 has temporarily hampered, but not destroyed, these ambitions.

### Spotlight on the UAE

Tucked into the southeastern edge of the Arabian Peninsula, the UAE borders Oman, Qatar, and Saudi Arabia. The UAE is a federation of seven states, called emirates because they are ruled by a local emir. The seven emirates are Abu Dhabi (capital), Dubai, Al-Shāriqah (or Sharjah), Ajmān, Umm al-Qaywayn, Ras'al-Khaymah, and Al-Fujayrah (or Fujairah). Dubai and Abu Dhabi have received the most global attention as commercial, financial, and cultural centers.

### Amusing Anecdote

Dubai, the Las Vegas of the Middle East

Dubai is sometimes called the Vegas of the Middle East in reference to its glitzy malls, buildings, and consumerism culture. Luxury brands and excessive wealth dominate the culture as oil wealth is displayed brashly. Among other things, Dubai is home to Mall of the Emirates and its indoor alpine ski resort. “About Mall of the Emirates,” Mall of the Emirates, accessed January 5, 2011, [www.malloftheemirates.com/MOE/En/MainMenu/AboutMOE/tabid/64/Default.aspx](http://www.malloftheemirates.com/MOE/En/MainMenu/AboutMOE/tabid/64/Default.aspx). Dubai also features aggressive architectural projects, including the spire-topped Burj Khalifa, which is the tallest skyscraper in the world, and the Palm Islands, which are man-made, palm-shaped, phased land-reclamation developments. Visionary proposals include the world’s first underwater hotel, the Hydropolis. Dubai’s tourism attracts visitors from its more religiously conservative neighbors such as Saudi Arabia as well as from countries in South Asia, primarily for its extensive shopping options. Dubai as well as other parts of the UAE hope to become major global-tourist destinations and have been building hotels, airports, attractions, shops, and infrastructure in order to facilitate this economic diversification goal.

The seven emirates merged in the early 1970s after more than a century of British control of their defense and military affairs. Thanks to its abundant oil reserves, the UAE has grown from an impoverished group of desert states to a wealthy regional commercial and financial center in just thirty years. Its oil reserves are ranked as the world’s seventh-largest and the UAE possesses one of the most-developed economies in West Asia. US Central Intelligence Agency, “Country Comparison: Oil—Proved Reserves,” *World Factbook*, accessed January 5, 2011, [www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html](http://www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html). It is the twenty-second-largest economy at market exchange rates and has a high per capita gross domestic product, with a nominal per capita GDP of US\$49,995 as per the International Monetary Fund (IMF). “IMF Data Mapper,” International Monetary Fund, accessed January 5, 2011, <http://www.imf.org/external/datamapper/index.php>. It is the second-largest in purchasing power per capita and has a relatively high human development index (HDI) for the Asian continent, ranking thirty-second globally. UNDP, “Human Development Index (HDI)—2010 Rankings,” *Human Development Report 2010: The Real Wealth of Nations and Pathways to Human Development*, November 4, 2010, accessed January 5, 2011, <http://hdr.undp.org/en/statistics>. The UAE is classified as a high-income developing economy by the IMF. *Wikipedia*, s.v. “United Arab Emirates,” last modified February 15, 2011, accessed February 16, 2011, [http://en.Wikipedia.org/wiki/United\\_Arab\\_Emirates](http://en.Wikipedia.org/wiki/United_Arab_Emirates).

For more than three decades, oil and global finance drove the UAE’s economy; however, in 2008–9, the confluence of falling oil prices, collapsing real estate prices, and the international banking crisis hit the UAE especially hard. US Central Intelligence

Agency, “Middle East: United Arab Emirates,” *World Factbook*, accessed January 5, 2011, [www.cia.gov/library/publications/the-world-factbook/geos/ae.html](http://www.cia.gov/library/publications/the-world-factbook/geos/ae.html).

Today, the country’s main industries are petroleum and petrochemicals (which account for a sizeable 25 percent of total GDP), fishing, aluminum, cement, fertilizers, commercial ship repair, construction materials, some boat building, handicrafts, and textiles. With the UAE’s intense investment in infrastructure and greening projects, the coastlines have been enhanced with large parks and gardens. Furthermore, the UAE has transformed offshore islands into agricultural projects that produce food.

A key issue for the UAE is the composition of its residents and workforce. The UAE is perhaps one of the few countries in the world where expatriates outnumber the local citizens, or nationals. In fact, of the total population of almost 5 million people, only 20 percent are citizens, and the workforce is composed of individuals from 202 different countries. As a result, the UAE is an incredible melting pot of cultural, linguistic, and religious groups. Migrant workers come mainly from the Indian subcontinent: India, Pakistan, Bangladesh, and Sri Lanka as well as from Indonesia, Malaysia, the Philippines, and other Arab nations. A much smaller number of skilled managers come from Europe, Australia, and North America. While technically the diverse population results in a higher level of religious diversity than neighboring Arab countries, the UAE is an Islamic country.

The UAE actively encourages foreign companies to open branches in the country, so it is quite common and easy for foreign corporations to do so. Free-trade zones allow for 100 percent foreign ownership and no taxes. Nevertheless, it’s common and in some industries required for many companies outside the free-trade zone to have an Emirati sponsor or partner.

While the UAE is generally open for global business, recently Research in Motion (RIM) found itself at odds with the UAE government, which wanted to block Blackberry access in the country. RIM uses a proprietary encryption technology to protect data and sends it to offshore servers in North America. For some countries, such as the UAE, this data encryption is perceived as a national security threat. Some governments want to be able to access the communications of people they consider high security threats. The UAE government and RIM were able to resolve this issue, and Blackberry service was not suspended.

Human rights concerns have forced the UAE government to address the rights of children, women, minorities, and guest workers with legal consistency, a process that is continuing to evolve. Today, the UAE is focused on reducing its dependence on oil and its reliance on foreign workers by diversifying its economy and creating more opportunities for nationals through improved education and increased private sector employment. *bWise: Business Wisdom Worldwide: U.A.E.* (New York: Atma Global, 2011).

## Africa

For the past fifty years, Africa has been ignored in large part by most global businesses. Initial efforts that focused on access to minerals, commodities, and markets have given way to extensive local corruption, wars, and high political and economic risk.

When the emerging markets came into focus in the late 1980s, global business turned its attention to Asia. However, that’s changing as companies look for the next growth opportunity. “A growing number of companies from the U.S., China, Japan, and Britain are eager to tap the potential growth of a continent with 1 billion people—especially given the weak outlook in many developed nations....Meanwhile, African governments are luring investments from Chinese companies seeking to tap the world’s biggest deposits of platinum, chrome, and diamonds.” Renee Bonorchis, “Africa Is Looking Like a Dealmaker’s Paradise,” *BusinessWeek*, September 30, 2010, accessed January 5, 2011, [http://www.businessweek.com/magazine/content/10\\_41/b4198020648051.htm](http://www.businessweek.com/magazine/content/10_41/b4198020648051.htm).

Within the continent, local companies are starting to and expanding to compete with global companies. These homegrown firms have a sense of African solidarity.

Big obstacles for businesses remain. Weak infrastructure means higher energy costs and trouble moving goods between countries. Cumbersome trade tariffs deter investment in new African markets. And the majority of the people in African countries live well below the poverty line, limiting their spending power.

Yet many African companies are finding ways around these barriers. Nigerian fertilizer company, Notore Chemicals Ltd., for example, has gone straight to governments to pitch the benefits of improved regional trade, and recently established a distribution chain that the company hopes will stretch across the 20 nations of Francophone Africa. Will Connors and Sarah Childress, “Africa’s Local Champions Begin to Spread Out,” *Wall Street Journal*, May 26, 2010, accessed January 5, 2011, <http://online.wsj.com/article/SB10001424052748704912004575252593400609032.html>.

While the focus remains on South Africa, it’s only a matter of time until businesses shift their attention to other African nations. Political unrest, poverty, and corruption remain persistent challenges for the entire continent. A key factor in the continent’s success

will be its ability to achieve political stability and calm the social unrest that has fueled regional civil conflicts.

### Google in Africa

Africa has some of the lowest Internet access in the world, and yet Google has been attracted to the continent by its growth potential. Africa with its one billion people is an exciting growth market for many companies.

“The Internet is not an integral part of everyday life for people in Africa,” said Joe Mucheru of Google’s Kenya office...

[Yet] Google executives say Africa represents one of the fastest growth rates for Internet use in the world. Nigeria already has about 24 million users and South Africa and Kenya aren’t far behind, according to World Bank and research sites like Internet World Stats...

Other technology companies have also set their sights on the continent. Microsoft Corp., International Business Machines Corp. [IBM], Cisco Systems Inc., and Hewlett-Packard Co. have sales offices throughout Africa, selling laptops, printers and software to fast-growing companies and an emerging middle class. Will Connors, “In Africa, Google Sows the Seeds for Future Growth,” *Wall Street Journal*, May 15, 2010, accessed January 5, 2011, <http://online.wsj.com/article/SB10001424052748704866204575223863572630700.html>.

Infrastructure, oil, gas and technology firms are not the only businesses looking to Africa; the world of advertising has now set its sights on the continent, following their largest global corporate clients.

Advertising growth in Africa is soaring, driven by telecom companies, financial services firms and makers of consumer products...

“All of our major clients, as they are looking for geographical expansion opportunities, have Africa and the Middle East high up on their priority list, if not at the top,” said Martin Sorrell, chief executive of WPP, the world’s largest advertising company by revenue...

Nigeria, Angola, Kenya and Ghana have some of the highest growth potential, ad executives say....

And with so many languages and big cultural differences, crafting ads can be labor-intensive, marketing executives say. Ads in Nigeria, for example, need to be in five different languages to reach a large audience.

Africa and the Middle East together represent only about 2.9 percent, or around \$14 billion, of the total \$482.6 billion global ad market, according to market research firm, eMarketer. Ruth Bender and Suzanne Vranica, “Global Ad Agencies Flocking to Africa,” *Wall Street Journal*, October 22, 2010, accessed January 5, 2011, <http://online.wsj.com/article/SB10001424052702304741404575564193783950352.html>.

This small percentage indicates the potential for significant advertising growth and a huge opportunity for global advertising and marketing firms.

### Spotlight on Nigeria

Located in West Africa, Nigeria shares borders with the Republic of Benin, Chad, Cameroon, and Niger. Its southern coast lies on the Atlantic Ocean. Nigeria is Africa’s most populous country and its second largest economy. Goldman Sachs included Nigeria in its listing of the “Next Eleven” emerging economies after the BRIC countries (Brazil, Russia, India and China). Jim O’Neill and Anna Stupnytska, “Global Economics Paper No. 192: The Long-Term Outlook for the BRICs and N-11 Post Crisis,” accessed February 16, 2011, <http://www2.goldmansachs.com/ideas/brics/long-term-outlook-doc.pdf>.

Since its independence from the United Kingdom in 1960, Nigeria has seen civil war, ethnic tensions and violence, and military rule. Although recent elections have been marred by violence and accusations of voter fraud, Nigeria is technically experiencing its longest period of civilian government since its independence. However, Nigeria remains a fractious nation, divided along ethnic and religious lines.

As noted in the Ethics in Action sidebar in this section, developing country economies that are primarily dependent on oil have widespread government corruption. The Nigerian government continues to face the challenge of reforming a petroleum-based economy, whose revenues have been squandered through corruption and mismanagement, and institutionalizing the early efforts at democracy. “Oil-rich Nigeria, long hobbled by political instability, corruption, inadequate infrastructure, and poor macroeconomic management, has undertaken several reforms over the past decade. Nigeria’s former military rulers failed to diversify the economy away from its overdependence on the capital-intensive oil sector, which provides 95 percent of foreign exchange earnings and about 80 percent of budgetary revenues.” US Central Intelligence Agency, “Africa: Nigeria,” *World Factbook*, accessed January 5, 2011, [www.cia.gov/library/publications/the-world-factbook/geos/ni.html](http://www.cia.gov/library/publications/the-world-factbook/geos/ni.html).



The economy of Nigeria is one of the largest in the world, with GDP (PPP) at \$341 billion. However on a per capita basis, the country ranks at a dismal 183rd in the world, with a per capita GDP (PPP) at just \$2,300. Seventy percent of its population remains below the poverty line, and the country ranks at 142nd on the human development index (HDI) rankings for 2010. Despite the low quality of life rankings for the country, Nigeria's population of more than 152 million make it an interesting long-term prospect for global businesses, particularly as economic conditions enable more Nigerians to achieve middle-income status. US Central Intelligence Agency, "Africa: Nigeria," *World Factbook*, accessed January 5, 2011, [www.cia.gov/library/publications/the-world-factbook/geos/ni.html](http://www.cia.gov/library/publications/the-world-factbook/geos/ni.html); UNDP, "Nigeria," *International Human Development Indicators 2010*, accessed January 5, 2011, [hdrstats.undp.org/en/countries/profiles/NGA.html](http://hdrstats.undp.org/en/countries/profiles/NGA.html).

Nigeria's economy is about evenly split between agriculture (which accounts for 32.5 percent), industry at 33.8 percent, and services at 33.7 percent. The country's main industries are crude oil, coal, tin, columbite, rubber products, wood, hides and skins, textiles, cement and other construction materials, food products, footwear, chemicals, fertilizer, printing, ceramics, and steel. US Central Intelligence Agency, "Africa: Nigeria," *World Factbook*, accessed January 5, 2011, [www.cia.gov/library/publications/the-world-factbook/geos/ni.html](http://www.cia.gov/library/publications/the-world-factbook/geos/ni.html).

Nigeria received IMF funding in 2000 but pulled out of the program in 2002, when it failed to meet the economic reform requirements, specifically failing to meet spending and exchange rate targets. In recent years, the Nigerian government has begun showing the political will to implement the market-oriented reforms urged by the IMF, such as to modernize the banking system, to curb inflation by blocking excessive wage demands, and to resolve regional disputes over the distribution of earnings from the oil industry. The country's main issues remain government corruption, poverty, inadequate infrastructure, and ethnic violence, mainly over the oil producing Niger Delta region. Nevertheless, with continued economic and political reforms, the expanding economy and large potential domestic market will continue to attract global business attention to Nigeria. US Central Intelligence Agency, "Africa: Nigeria," *World Factbook*, accessed January 5, 2011, [www.cia.gov/library/publications/the-world-factbook/geos/ni.html](http://www.cia.gov/library/publications/the-world-factbook/geos/ni.html).

## How Do Developing Countries Become Emerging Markets?

Section 4.4 focuses more closely on emerging markets. However, it's important to remember that all of the emerging-market countries were once considered developing nations. What resulted in the transition? Are today's developing countries turning into tomorrow's emerging markets? These are the questions that not only global economists and development experts ask, but—more relevantly—global businesses as well.

Typically, the factors that result in the classification of many countries as developing economies are the same ones that—once addressed and corrected—enable these countries to become emerging markets. As Chapter 2, Section 2.2 explains, countries that seek to implement transparency in the government as well as in the political and economic institutions help inspire business confidence in their countries. Developing the local commercial infrastructure and reducing trade barriers attract foreign businesses. Educating the population equally and creating a healthy domestic workforce that is both skilled and relatively cheap is another incentive for global business investment.

Unlike emerging markets, developing and underdeveloped countries still need special attention from international aid agencies to prevent starvation, mass disease and political instability. Developing countries need to improve their education systems and create a strategy to begin their transition to the global emerging market. Companies from developed and emerging markets should play an important role in this process. Companies from emerging markets are especially crucial, as they have a great deal of experience operating in conditions of non-developed economies. Vladimir Kvint, "Define Emerging Markets Now," *Forbes*, January 28, 2008, accessed January 5, 2011, [http://www.forbes.com/2008/01/28/kvint-developing-countries-oped-cx\\_kv\\_0129kvint.html](http://www.forbes.com/2008/01/28/kvint-developing-countries-oped-cx_kv_0129kvint.html).

While developing countries comprise the largest category, it's important to remember that there are wide differences between the nations in this classification. If a company wants to stay ahead of the competition, it must be able to identify those countries ripe for development. Early entrance into these markets helps create **first-mover advantage** in terms of brand recognition, forging essential relationships with the government and the private sector, and harnessing any early-stage cost advantages. First-mover advantage refers the benefits that a company gains by entering into a market first or introducing a new product or service before its competitors.

### Did You Know?

#### Mongolia Is Becoming Hot!

For most people, the country of Mongolia conjures images of a remote place near China—a movie location. It hasn't been at the forefront of anyone's attention for almost two decades, and yet the "IMF says that Mongolia will be one of the fastest-growing

economies over the next decade.”Charlie Rose, “Charlie Rose Talks to Mongolia’s Prime Minister,” *BusinessWeek*, September 30, 2010, accessed January 5, 2011, [http://www.businessweek.com/magazine/content/10\\_41/b4198014855514.htm](http://www.businessweek.com/magazine/content/10_41/b4198014855514.htm). This is a remarkable turnaround for a country that lost its Soviet assistance—one-third of its economy—in 1990 with the fall of the Soviet Union. Traditionally an agriculture-based economy, Mongolia is landlocked by its borders with China and Russia and is the approximately the size of Western Europe, with a relatively small population. However, its tremendous untapped mineral resources, which include coal, copper, molybdenum, fluorspar, tin, tungsten, gold, and oil, are attracting foreign investment. The country is a major exporter to China—its large, relatively rich neighbor. The country is exploring new resources as well; according to Prime Minister Sukhbaatar Batbold, “Wind power could be a major opportunity for Mongolia and for export to China.”Charlie Rose, “Charlie Rose Talks to Mongolia’s Prime Minister,” *BusinessWeek*, September 30, 2010, accessed January 5, 2011, [http://www.businessweek.com/magazine/content/10\\_41/b4198014855514.htm](http://www.businessweek.com/magazine/content/10_41/b4198014855514.htm).

## KEY TAKEAWAYS

- The developing world refers to countries that rank lower on the various classifications from [Section 4.1](#). The residents of these economies tend to have lower discretionary income to spend on nonessential goods.
- The poorest countries of the world are often referred to as the Third World. However, the Third World is not synonymous with the developing world, instead it is part of an outdated model of the geopolitical world from the time of the Cold War. It encompasses three-quarters of the world’s population and consists of the states that were not aligned with either the democratic-industrial bloc or the eastern, communist-socialist bloc.
- A developing country, in order to evolve into an emerging market, must (1) seek to implement transparency in its government as well as in its political and economic institutions to help inspire business confidence in its country, (2) develop the local commercial infrastructure and reduce trade barriers to attract foreign businesses, and (3) educate the population equally and create a healthy domestic workforce that’s both skilled and relatively cheap.

## EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. Describe the main characteristics of developing economies.
2. Select one developing country. Utilize a combination of the *World Factbook* at [www.cia.gov/library/publications/the-world-factbook/geos/xx.html](http://www.cia.gov/library/publications/the-world-factbook/geos/xx.html) and the HDI at <http://hdr.undp.org/en/statistics/>, and formulate an opinion of why you think the country is a developing country. Identify its per capita GDP and HDI ranking to assess its level of development.

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