Middle Income and Borderline Issues

SUBJECT: The concept of "Middle Income Country" is broadly used by international agencies and ever more so by the United Nations system. Countries thus classified, however, are raising concerns stemming from their highest levels of political responsibility, given the consequences of this classification in terms of cooperation for development. This indicator shows limitations as a working tool in the field of development and the need is felt to advance towards more functional concepts. Thus, the concept of "borderline" contributes along this line.

I. The "Middle Income Country" indicator, created by the World Bank over 30 years ago, with the sole purpose of assessing the condition of countries to receive loans, includes approximately half of the States in the world (96 countries in 2006, according to the World Bank). In the case of 2007, this is about those States whose per capita Gross Domestic Product (GDP) is over 1,025 dollars a year and under 6,055 dollars a year. The situation of countries is so different that a quick statistical glace at the documents reveals that 45% of the times the expression "middle income country" is used, the words "heterogeneity" or "diversity" are associated to it. This indicator has been further refined, among others, by ODA-OECD and the World Bank itself, who also define Upper Middle and Low Income. Experts have helped improve this indicator by relating income to the cost of living, what they call GDP according to Purchasing Power Parity or GDP (PPP).

In its own documents, the Word Bank explains that this classification only applies in the case of economies and to the practical effect of their lending policies. However, its use has been broadly disseminated throughout the United Nations system. The term "Middle Income Country" is being used—also with some difficulty—in Trade-related negotiations, to exclude or "graduate" countries from the Generalized System of Preferences (GSP). Over the last twenty years, 38 countries fell from the "middle income" to the "low income" category and only 10 have been able to recover since then. If the classification of countries were acceptable, the so-called middle income countries would rather deserve the category of Borderline Countries as their fragility would lead them to shift from one category to another. This is true of many countries in the region. According to the techniques used to deal with statistical information, the results are strikingly different and therefore, for those who are specialists in development rather than in credit policies, this creates more confusion than help.

For example:

China ranks fourth as world economic power according to its GDP. If we adjust the GDP according to the Purchasing Power Parity (PPP), it would rank second as world power. Should we consider its per capita GDP, China would be in the 89th position and be a Middle Income Country. Following this same criterion, Uruguay ranks 86th, that is, it is three ranking points above China. Is it reasonable then to compare Uruguay and China—so close in terms of their per capita GDPs--merely in terms of support for development? This also applies, of course, to most countries in Latin America and the Caribbean. Even in the case where all possible adjustment techniques are applied to the GDP, other elements ignored in this index are decisive to understand the degree of development, namely: distribution of wealth, the population's health, natural resources, quality of institutions or the burden of their foreign debt. And then, is development just—or simply—an issue related to income? According to the Human Development Index (UNDP 2006), China ranks 81st and Uruguay 43rd. The Gini Index, that measures unequal distribution of income across the population, reveals that the more unequal countries in the world fall into the category of Middle Income Countries. The Human Development Index, the Gini Index and others are still in force but --both at the level of discourse and practice-- they seem to lose ground in the presence of the per capita GDP indicator. We are left with the impression that, as a result of a given figure, determined by the head office of a given organization, countries no longer have a right to receive international cooperation. Governments in the region have publicly voiced their concerns in this regard (President Arias of Costa Rica, President Saca of El Salvador, members of President Vázquez's government in Uruguay, etc.).

II. The United Nations system has an unavoidable internal task to assume. Given the need for resources, it has gradually adopted financial criteria when envisaging development, delegating intellectual leadership to international financial institutions. Contrary to international financial organizations (World Bank, International Monetary Fund, regional banks) where every country has the power of voting according to the shares it holds—and therefore wealth determines its position—in the United Nations Organization all countries are equal and each country has the right to one vote. To classify countries on the grounds of their income constitutes a technical tool to assess their credit capacity and becomes irrelevant for those who work to foster development within the values of the system. Universal principles of the United Nations and its Charter lead us not to exclude any State, not even to consider that there is a "full stop" in terms of development. One does not "graduate" from development. There are more or less critical or vulnerable situations in different sectors of the economy, society, institutions of the Member States that the international community must cooperate with. The internal challenge is to recover that capacity to approach development with a vision that is compatible with the whole set of values enshrined in our mandate.

III. It is easier to understand countries—from the viewpoint of helping their development—if we sum up their structural vulnerabilities and their effort to overcome them. The degree of subsidies or donations underlies the concern shown by authorities in countries classified as "Middle Income". This concern will be less of a priority if the international community, and stakeholders, evaluate the impact—both local and international—of each intervention when it is able to prevent a situation from becoming borderline. The majority of "Middle Income" countries are in fact borderline countries and, therefore, cooperation efforts cannot be cut away from them but rather reoriented to build on those areas that would represent some risk. In the current political and economic context the search for national stability and predictability represents values shared by International Financial Institutions and the United Nations System. The proposal to focus on borderline issues is compatible with the "cost-benefit" rationale and is much more useful in order to determine the needs relative to development assistance.

IV. If someone is standing at the edge of a cliff, the effort to move the person away from it is not, in general, as huge as the effort to bear the consequences of the fall. Most development assistance interventions should be directed to "borderline" situations. When structural vulnerability is duly identified as "borderline", the cost of intervention is, in general, considerably lower than the cost of overcoming a crisis. This type of intervention can be punctual and relatively low-cost, but it has to be effective in terms of overcoming the borderline situation. Many countries worldwide, covering all income levels, can draw benefits from this type of intervention and can, in turn, benefit others with their contributions. In this way, contribution to development comes closer to becoming a strategic-steps model to consolidate development processes by overcoming those vulnerabilities that are more likely to become critical. This is also consistent with the concerns over all aspects of security.

V. Given the concern of Member State governments and our own difficulties to work both with the "Middle Income Country" indicator as well as with the principle relative to the "graduation" of countries, we suggest thinking about other possible indicators and methodologies that can be more functional and make more political sense to our task. The practice of cooperation for development has allowed for the identification of key aspects in the economic, social, cultural and political structure of countries; these aspects contribute or interfere with improving the quality of living (health, education, employment, citizen participation, etc.) and appreciate its strengths and weaknesses. Building and strengthening capacities and institutions, the transfer of expertise and good practices, whether or not accompanied by the transfer of resources, allow international expertise to be applied at the local level. Governments and the population have lately been improving their understanding of the importance of ownership vis-à-vis cooperation projects. The technique to determine a borderline situation is built with the tools available (HDI, Gini Index, etc.). Some examples of such situations are: extreme dependence on external agents, extreme inequity in the distribution of wealth, the absence of State institutions to deal with social problems, recurring ethnic conflict, and high peri-natal mortality rates, along with many other factors that many middle income countries have not been able to or could not solve. The factor or factors that could—when getting worse—lead to a crisis (economic, social, humanitarian, environmental, institutional) deserve international cooperation.

Our proposal, stemming from the explanation above, is to explore the following points:

- To abandon the use of one single indicator and, in particular, the "Middle Income Country" classification as relevant criterion in cooperation for development, and integrate it into the whole set of statistics and indexes prepared by different institutions dealing with development as a working tool. To share this thought with international financial institutions to overcome the importance granted to indicators that change the status of a country on the basis of an extra dollar in their per capita GDP, mistaking growth for development.

- Instead of classifying countries, the **interventions** of the United Nations System should be classified, according to each country's critical needs indicators, on the grounds of the conceptual wealth contributed by, *inter alia,* MDG-related activities, and compatible with this whole proposal.

VI. The purpose of this document is just to stimulate a discussion around the concerns voiced by several governments in the region given the likelihood of their "graduation" and loss of benefits when classified as "middle income countries" by multilateral financial agencies. In addition, it represents an attempt at awakening the system's capacity to develop intellectual initiatives.