

**Jagran Forum
New Delhi
08 December 2005
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“Democracy, Development & Social Inclusion”

The 21st Century will be very different from the 19th and 20th Centuries. Whereas during the 19th and 20th Centuries, the voice of the West dominated discussions and the flow of History, things will be different in the 21st. Civilizations that had been dormant and stagnant will become active. There is a need to prepare for this by changing mindsets to cope with the new, more diverse world. We should have no illusions that this will be an easy process.

One change in mindset would be how the world views the virtues of Democracy, Development and Social Inclusion. In our contemporary world, many commentators and philosophers, especially in the West, would like to wrap a moral cloak of virtue around them as they lecture the rest of the world on these three virtues. These goals are worthwhile. We should strive for them. But if one did an objective audit of what the Asian societies need most at their current stage of development, one has to add a fourth item: Good Governance. Indeed Good Governance may be an essential precondition for achieving the first three goals. For reasons I have not been able to fully fathom, western commentators fight shy of the concept of “good governance.” It is possible that they may lose some of their moral high ground when this becomes a goal. In this field, many developed countries are also struggling. Hence, my goal today therefore is a simple one: to get more Asians to focus on “good governance” as a priority.

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In deciding which goals to aspire to, we need to first decide what ethical basis we are using to assess these goals. There is a need to examine the moral calculus which underpins how we assign values to social change. I will try to apply the wisdom contained in John Rawls famous treatise: A Theory of Justice. He said that the best way of deciding which was the most just society was to apply 'the veil of ignorance'. When we are asked to pick which societies we would opt for, we should do so without knowing which class we would be born into. Hence, we would naturally pick the society where the people at the very bottom are the least worst off as we might end up being born in that class. In examining the value of social change, we should look at its impact not only on the richest, but also on the poorest members of society. If the poorest do not benefit, then there is a need to re-examine the value of the change. I believe that this is the best ethical standard to apply in choosing which values should take priority. [To do justice to Rawls, let me for the record add that he also puts a high premium on liberty as a value.]

Let us therefore look at the laudable goals of Democracy, Development and Social Inclusion through the eyes of the poorest in any particular society. Take the case of democracy for example. Has the sudden arrival of democracy always benefited the poorest classes? The record surely shows that they often end up worse off – let's look at three recent examples of Russia, Indonesia and the Philippines.

Russia went through an intense social and economic implosion when democracy suddenly arrived on Russian shores. The West was truly delighted when Russia turned democratic because it meant the end of the nuclear nightmare they had lived under for decades. They breathed a huge sigh of relief and till today they venerate Gorbachev. By contrast, there is

little reverence for Gorbachev among the Russian population. This sudden introduction of democracy led simultaneously to the looting of rich Russian national assets by a few oligarchs and a dramatic decline in living standards, especially among the poorest and the old pensioners who suddenly had to scramble to survive.

The Russian story is a complex one. I do it injustice by summarizing it so crudely. But the evidence is clear. The poorest and most vulnerable sectors of Russian society suffered and did not benefit from the sudden introduction of democracy. The infant mortality rate in Russia rose from 17.4 deaths per 1,000 live births in 1990, right before the collapse of the Soviet Union (and as the socio-political implications of *glasnost* became widespread), to 19.9 in 1993. The peak infant mortality rate in 1993 reflected the decline in economic conditions. The overall morbidity rate for all diseases rose sharply from 1990 to 1995 by 24%. Male life expectancy declined from 63.8 years in 1990 to 59 years to 1993, and female life expectancy fell from 74.4 to 72 years. Russia's economy greatly contracted to a peak rate of about -14.5% per annum in 1992, when the rest of the world was growing steadily at around 3% per annum. While there were some benefits to the introduction of democracy in Russia, large segments of the population paid a high price for it. At which point does their very real suffering become a factor in deciding the ethical value of suddenly introducing democracy into any society?

The very poor in Indonesia also suffered tremendously when democracy suddenly arrived in their country. Here too the West celebrated the departure of President Suharto, especially the corrupt cronies surrounding him. But for seven years after his removal in 1998, the Indonesian economy imploded. One of Suharto's greatest achievements was to reduce the number of

Indonesians living below the level of poverty. After his sudden removal, which was followed by a series of three relatively ineffective presidents, the number of people living below the poverty line increased sharply. The poverty incidence of Indonesia rose sharply in 1998 (24.2%) due to the financial crisis but has steadily decreased since then 1999 (18.2); 2002 (17.9); 2004 (16.6%). Fortunately, with the arrival of President SBY there is real hope that their conditions can improve again.

There is no question that the rule of Suharto had to end someday and that Indonesia had to move eventually towards democracy as its economy continues to grow. The real question is how to make the transition in such a way that the poorest and most vulnerable sections of a society do not end up paying the price.

The third case I am going to discuss, that of the Philippines, is perhaps the saddest case. While the majority of the Indonesian people did experience a significant improvement in living standards under Suharto's rule, the poorest Filipino people have suffered both from the authoritarian rule of Marcos and the subsequent democratic rule that followed. Neither authoritarian rule nor democratic rule has benefited the poor. This is truly puzzling. At the end of World War II, especially in the early 1950's, the Philippines had the highest per capita income of any Southeast Asian state and was always portrayed as the most promising economy in Southeast Asia. Fifty years later it has slipped badly and is now still one of the least promising economies of the region. Astonishingly, despite having started off at a much lower base and despite the enormous pools of poverty in Indonesia, the per capita income of Indonesia today is almost as high as the Philippines. As of 2004, the GNI per capita of the Philippines was \$1136,

while Indonesia followed right after at \$977. In 2003, the GNI per capita of the Philippines was \$1063, while Indonesia was \$916. In 1970, the Philippines' GNI per capita was \$180, while Indonesia's was \$73.

To quote from Guido Tabellini, Professor of Economics at Bocconi University, Milan: "But how important is democracy for economic success? Not much, the empirical evidence suggests. This might appear surprising. After all, is it not true that virtually all rich countries have democratic forms of government, while the poorest countries (mainly in Africa) are non-democracies? Indeed, throughout the world, democracy is strongly correlated with higher per capita income. But this correlation goes missing when one looks at the dimension of time rather than space. Countries that become democracies do not, on average, achieve faster economic growth after their political transition; and, vice versa, democracies that fail and relapse into autocracy do not, on average, do worse than before."¹

He further discussed this in his paper with Francesco Giavazzi: Consider a country that is closed both economically and politically, like China or Russia in the late 1980s. This country can follow two paths to economic and political liberalism. The "easy path" is to do what Russia did: first become a democracy and then try open up the economy. This route is "easy" in the sense that democratic governments are more likely to pursue economic liberalizations compared to dictatorships. But the economic payoffs are much higher for countries that do it the "hard way", namely who open up the economy while still being autocracies, and only then become democracies. In some sense, this is what China is trying to do. This route is harder in the sense that very few autocracies have pursued economic liberalizations; but those who did performed

¹ Tabellini, Guido. 2005. *Democracy Comes Second*. Project-Syndicate.

much better than the rest. The comparison between China and Russia, of course, fits this lesson very well.”²

Please let me reiterate here that in the long run there is no doubt that all societies have to move towards democratic rule. There is no alternative long-term destination. Churchill was right: democracy is the worst form of government, except for the alternative. The destination is never in doubt but the route is certainly in question. In the past decade alone, we have seen how the poor in three large countries have suffered from the sudden introduction of democracy. One can also, perhaps, make the case that several countries in the Balkans, especially Bosnia, and in Africa, especially Rwanda, suffered when the West suddenly promoted democratic rule in these places, igniting in the process long-standing ethnic and other tensions, without putting in place the check and balances that are a critical aspect of developed democratic societies.

The lessons from Russia's experience have not been lost on the Chinese leaders and the Chinese people. This is why the Chinese leaders are relatively unmoved when many Western leaders urge China to move towards democracy more rapidly. After having struggled for almost two hundred years to find the right formula to modernize and uplift the Chinese people, the Chinese people believe that they are finally on the verge of making it and succeeding. For the first time, a generation of Chinese believes that a better life awaits them and, more importantly, a better life awaits their children. The fact that the world's most populous economy can deliver the fastest-growing economy for 25 years is a remarkable achievement. By 2001, China reached the World Summit for Children goal of reducing malnutrition in children under-five by half from 1990-2000, which gave East Asia and the Pacific the largest decline of underweight levels in that

² Giavazzi, Francesco and Tabellini, Guido. August 2004. *Economic and Political Liberalizations*. NBER Working Paper Series.

decade. China has also reduced its poverty gap ratio from 8.9% in 1990 to 3.9% in 2001. The country's infant mortality rate has steadily decreased while life expectancy at birth continues to increase. This has not happened by accident, but is a result of the enormous political will on the part of the Chinese leadership and people to seize the opportunity to develop China and remove the memories of humiliations heaped on China by the West in the 19th Century.

I am therefore truly puzzled by the insensitivity of American leaders when they tell China to plunge into democracy quickly. Secretary Rumsfeld said in Singapore at the IISS Shangri-La Dialogue on June 4, 2005 that "Though China's economic growth has kept pace with its military spending, it is to be noted that a growth in political freedom has not yet followed suit. With a system that encouraged enterprise and free expression, China would appear more a welcome partner and provide even greater economic opportunities for the Chinese people." President Bush, speaking in Japan on the eve of his visit to China said on November 16, 2005 that "As the people of China grow in prosperity, their demands for political freedom will grow as well. President Hu has explained to me his vision of "peaceful development," and he wants his people to be more prosperous. I have pointed out that the people of China want more freedom to express themselves, to worship without state control, to print Bibles and other sacred texts without fear of punishment. The efforts of Chinese people to...improve their society should be welcomed as part of China's development. By meeting the legitimate demands of its citizens for freedom and openness, China's leaders can help their country grow into a modern, prosperous, and confident nation."

However, every time an outsider tells the Chinese leaders to switch to democracy immediately, what the Chinese hear is a call for them to replicate the Gorbachev experience in China and to have China implode like the Russian economy did. The Chinese leaders have one nightmare: they call it the Gorbachev nightmare. They naturally fear that China will once again be humiliated by the world. This is why they are resistant to immediate political change as they have seen what happened in other countries that embraced democracy too quickly. If we cannot bring China into the discussion on democracy, then it will be difficult for the virtuous cycle of democracy and development to take hold in China.

What is puzzling about these Western calls to Asian and other societies to make the immediate plunge into democracy is that the Western experience with democracy itself suggests that a full blown democracy takes root slowly. America can justifiably claim to have the oldest democracy in the planet. However, when America became independent in 1776, the vote was restricted to male white farmers who made up a minority of the population. The Blacks remained enslaved until 1863, and got full effective suffrage only in the mid-1960's after the civil rights movement broke out. In short, the Blacks were enslaved for almost a century and had to wait almost two centuries to get an effective right to vote. American women got the right to vote in 1920, almost 150 years after independence. Even in Europe, a country like Switzerland finally gave women the right to vote in 1971.

Despite their own historical experience of slow evolution towards democracy, most Western thinkers and philosophers have no hesitation prescribing instant democracy, including full and universal suffrage, on other societies, no matter where they stand on the ladder of

development. One of the classical analyses of the origin of democracy has been Barrington Moore, an American sociologist who died last month. His thesis in the classical work entitled, “The Social Origins of Dictatorship and Democracy” has been crudely summarized as follows: “No bourgeoisie, no democracy.”³ This is a credible thesis. It takes a strong and vibrant middle class to provide the necessary checks and balances needed in a democratic society. Hence, all those who wish to promote democracy globally, especially those in the West, should strive to help develop strong middle classes in developing societies.

The simple question here is: Is this what the West has been trying to do? This is perhaps the natural point to make a transition to the issue of development. Most Western commentators and thinkers believe that the West has been the largest force promoting development in the developing world. Witness the huge amounts of ODA that the West has dispatched to the developing world in the last half century. Since 1960, about \$1.5 trillion of aid have been provided by OECD Development Assistance Committee (DAC) members for developing countries. The West tried. The developing world failed. Hence, the West cannot be held responsible for the failures in development.

I agree with the central claim of the West: the developing countries that failed must hold themselves responsible for their failures. Indeed the only way to turn things around, either in one’s personal life or in a nation’s destiny, is to take personal responsibility for failures and successes. Blaming the West or the rich countries or anyone else has never helped a country. Indeed the kindest thing that one can do to a struggling state is to tell the state to take over responsibility for its own fate.

³ The Economist, Nov. 26th – Dec. 2nd 2005, page 88.

But the West cannot evade all responsibility for all the problems of the developing world. With the possible exception of the generous Scandinavian states who have primarily delivered ODA for altruistic purposes, the majority of Western nations have used ODA primarily as a foreign policy tool to pursue national interests, (although this high-level policy making probably should be differentiated from the more sincere intentions of those working on the ground.) Hence, the effectiveness or usefulness of the ODA they gave was never a primary consideration. As long as it furthered the donor country's interests, the real effect on development was not looked at. This explains, for example, the strange situation where some of the countries who have received the highest per capita amount of aid have still not been successful. The only exceptions to this rule are Israel, which is the only middle income country to receive huge amounts of aid, and possibly Ireland, after it joined the EU.

The then Minister for Development Cooperation of the Netherlands, Eveline Herfkens, said in April 2001 in a speech at the WBI's Spring Meetings Donor Breakfast at Washington, DC: "Back in 1993, the Berg report leveled sharp criticism at the unimpressive results of technical assistance. But even before that, Kim Jaycox, then World Bank Vice-president for Africa, made the case that expatriate technical assistance in fact undermines African capacity. We cannot pretend that the situation has changed much since then. Why is it so difficult to break the mold? In the first place, because technical assistance fits in perfectly with the myth of Western superiority—and even reinforces it. Both in the North and the South. We give, they receive. We know, they learn. We have to take care of things, because they cannot. Last year we set up a new policy framework for technical assistance, and we decided to close down the

department that sends Dutch experts to the developing world. There was fierce parliamentary and public debate. I saw an article by a Dutch expert who was against reducing the number of development workers in the field. The article was headed: *“If the (Dutch) doctor leaves, development stops.”* And another quote: *“Herfkens kills babies”*. Vested interests in the development industry are hiding behind do-good intentions.”

The truly sad part of the story of development is that the failures of both the recipient and donor countries to take responsibility for their actions has resulted in a situation where the majority of developing countries are still struggling to succeed. Indeed, if the two most populous countries of the world, China and India, had not been relatively successful, one might have even said that the majority of the developing world’s population has not succeeded. Fortunately, both China and India are succeeding.

All this has led us to a situation when almost fifty years after decolonization, we still do not know how to create a virtuous cycle of development. As Raghuram Rajan, the Chief Economist of IMF, said in December 2003 in an interview with the IMF magazine: “It [development] isn’t just a case of pouring in more money. We need to better understand how successful development has occurred. One of the areas that I find most frustrating is the complete lack of guidance in economics as how to start a virtuous cycle of development in the poorest parts of the world”

India is a shining example of how to bring about a virtuous cycle of democracy and development. It is a model for the world. For example, India's political system allows for

changes in government to take place smoothly and without instability, providing for the entry and exit of political figures without shaking the society.

However, if the virtuous cycle of democracy and development were so easy to replicate, then the natural places for it to flow into would be India's immediate neighbourhood – e.g., Nepal, Bangladesh, Myanmar, etc – and India's neighbours should all be enjoying the same virtuous cycle. But they still face many challenges. Similarly, the neighbours of Western Europe in North Africa have not seen a crossover of the virtuous cycle across the Mediterranean. Similarly, it took a very long time for the virtuous cycle in the US to spread into Mexico. It is therefore clear that the spread of this virtuous cycle of democracy and development is difficult.

The time has come therefore to take a fresh approach to the issue of development. In my humble view, the only way to start and sustain a virtuous cycle of development is to promote good governance in developing societies. We need to add the concept of “good governance” to the mix if we want the values and virtues of democracy, development and social inclusion to be spread more widely and be universally accepted and applied. This is often the crucial missing ingredient. As Kofi Annan said, “Good governance is perhaps the single most important factor in eradicating poverty and promoting development.” Michael Camdessus, the former head of IMF, made the same point when he said, “Promoting good governance in all its aspects ... [is] an essential element of a framework within which economies can prosper.”

For reasons I have not still fully discovered, most writers fight shy of trying to define “good governance”. Instead most writers speak more readily of “bad governance” that bedevils

the developing world without addressing what is the opposite of “bad governance”. The World Bank tried to put together a list of ingredients of “Good Governance” (Please see Annex A of the paper.) However, this list is both too long and too vague.

While the desirability of "good governance" is widely-accepted, there is no consensus on the definition of good governance. At the risk of being foolhardy, let me suggest that there are five critical elements in any definition of “Good Governance”. They are:

- (i) Free Market Economics
- (ii) Rule of Law
- (iii) Political Accountability
- (iv) Social Justice
- (v) Education

Any Western commentator, from their point of view, will immediately spot one key element missing: democratic rule. If democratic rule is a necessary condition for good governance, how does one deal with the case of China? By any definition, especially given the enormous improvement in the quality of life of hundreds of millions of Chinese, one has to argue that China has benefited from good governance over the past two decades. Yet it is clearly no democracy. To deny that China has enjoyed “good governance” will only make this term meaningless.

This is why Asian writers and commentators have to come up with their own language, including new concepts, to describe the contemporary Asian experience. In the Western scheme,

all authoritarian rule is bad. But the Asian experience suggests otherwise. Look at the Korean peninsula when it was ruled by Kim Il Sung in the North and Park Chung Hee in the South. Both went through authoritarian rulers but Kim Il Sung produced a tragedy in the North and Park Chung Hee developed a modern economic miracle which eventually became an open and vibrant democracy. The real difference between the two is simple: Kim Il Sung delivered “bad governance” and Park Chung Hee delivered “good governance”. In 1961, when Park Chung Hee took over, South Korean’s per capita income was about \$900. Today, South Korea is a member of the OECD. The record shows that such dramatic transformation of any society is enormously difficult. To deny such transformation the description of “Good Governance” would therefore be strange.

Finally, let me say a few words about the goal of “social inclusion”. If the term is meant to refer to the ability of a society to integrate either its economically disadvantaged classes or religious or ethnic minorities into the mainstream of society, then it is clear that both developed and developing countries have failed in social inclusion in recent times. The failures of developing societies are understandable, given their limited resources, but it is vital to stress that some developing societies have done a good job of social inclusion. India is surely a shining example in this area, with its ability to create a strong sense of nationhood out of a very diverse religious and ethnic social fabric. Many states are failing at social inclusion with a far less diverse social fabric.

The recent tragic revelations of the failures of social inclusion in developed societies clearly indicate how difficult this goal is. The loud message that came out of America’s poor

handling of the damage done by Hurricane Katrina in New Orleans was that even the most prosperous society in the world has not fully integrated its most impoverished, who seem to live in a different society. Similarly, the bombings in London on 7 July this year showed the alienation of some elements of their Islamic communities, even in the relatively tolerant British society. The riots, looting and car burnings in France in late 2005 also demonstrated that large segments of Muslim immigrants in French society feel excluded, not included.

These three tragic failures in the US, UK and France suggest that social inclusion is an extremely difficult goal. They also demonstrate the wisdom in the Rawlsian approach: to look at the value of any social prescriptions from the point of view of the most disadvantaged. If they benefit, together with the majority of any society, there is some real ethical value in the social prescription. But if they suffer as a result of the social prescription, we should question the ethical value of that prescription.

Despite the enormous strides made in development by the world, there are still one billion people who live on less than a dollar a day and two billion people who live on less than two dollars a day. Asians make up the majority of these pools of poverty. On both ethical and pragmatic grounds, we should put a premium on prescriptions that will help these poor populations. From their point of view the clear moral imperative is to deliver “Good Governance”. With the successful delivery of “Good Governance”, we are more likely to achieve the goals of Democracy, Development and Social Inclusion.

Annex A: Components of Good Governance

Structure of Government

- Independent and effective judiciary
- Legislative oversight
- Independent prosecution, enforcement
- International dimensions: Restraints on foreign investors, trading partners, donors

Political Accountability

- Political competition, credible political parties
- Transparency in party financing
- Disclosure of parliamentary votes
- Asset declaration, conflict-of-interest rules

Civil Society Voice & Participation

- Freedom of information
- Public hearings on draft laws
- Role of media/NGOs
- Governance monitoring

Competitive Private Sector

- Economic incentive framework/policies
- Competitive restructuring of monopolies
- Regulatory simplification for entry
- Transparency in corporate governance
- Collective business associations

Public Sector Management

- Meritocratic civil service with monetized, adequate pay
- Budget management (coverage, treasury, procurement, audit)
- Decentralization with accountability
- Frontline service delivery (health, education, infrastructure)
- Tax and customs

Source: Cheryl Gray, Reforming Governance: World Bank Experience to Date, March, 2002.
<http://unpan1.un.org/intradoc/groups/public/documents/un/unpan002747.pdf>