

Policy Brief 2

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Realizing Expectations for Social and Economic Opportunities

Millions of people in Asian countries once ruled by autocrats are struggling to realize freedom and shared opportunity through political transitions. Countries around the region teeter on the edge of transition to more free and open societies. These movements for political freedom and broader prosperity come at a time when democracy appears to be receding, as experts such as Larry Diamond in *The Spirit of Democracy* and Joshua Kurlantzick in *Democracy in Retreat* have noted. The failed U.S. attempts to impose democracy in Iraq and Afghanistan and the economic rise of non-democratic China further undermined confidence in the inevitability and even desirability of democratization. As Freedom House reports in its *Freedom in the World 2013*, global levels of freedom have declined for the seventh straight year. Noted democracy scholars now talk about a "democratic recession."

Many experts once believed that economic growth inevitably led to democracy. But although most rich countries in the world today are relatively democratic, some, such as China, have enjoyed growing economic prosperity without a commensurate increase in substantive political freedoms. In fact, history suggests that economic growth and prosperity do not necessarily lead to democracy, although a large middle class and higher overall wealth can help prevent backsliding to authoritarianism once democracy takes hold. On the other hand, short-term economic crises do trigger regime changes. Over the past three decades, many democratic transitions have been precipitated by serious economic shocks that inflicted unacceptable costs on citizens, rupturing the authoritarian bargain.

Indonesia's remarkable and relatively sudden transition to democracy is a compelling example of economic crisis unleashing momentum for democratic freedom. With the onset of the Asian financial crisis in 1997, the frailties of Suharto's economic policies, such as corruption, debt, and a hands-off approach to corporate governance and financial regulation, became clear. The resulting discontent swept the long-ruling Suharto regime from power.

Once democracy has emerged, a robust middle class and the other trappings of a solid middle-income country are instrumental to consolidation. At a minimum, it is clear that countries undergoing democratic transitions before achieving a sizeable middle class will face a steep road indeed. With this awareness, policymakers should be prepared for years of intensive but undoubtedly rocky economic and political engagement when lower-income countries embark on democratization. Leaders both inside and outside the country should insist that austerity measures be balanced with smart and effective safety nets. They should also work to educate the population about the challenges of economic restructuring and the time required to lift economic prospects.

International actors can support the economic policies of domestic reformers by providing development grants and loans, sovereign loan guarantees, and debt forgiveness to backstop external financing gaps and create important fiscal space for governments to deliver on the demands of the new, democratic

social contract. The original purpose of the International Monetary Fund and the World Bank— institutions arising from the ashes of a world war that had been triggered in large part by severe economic hardships—was to provide economic lifelines for countries faced with current account and balance-of-payments crises, runaway inflation, and the massive expenditures required for development. These multilateral institutions should continue to play an important role in guarding against macroeconomic instability (the IMF) and in financing development investment (the International Bank for Reconstruction and Development, the International Development Association, and regional development banks) for countries now transitioning to democracy.

Fiscal policy is the primary tool for governments to affect income distribution. Rising income inequality in advanced and developing economies has coincided with growing public support for income redistribution. This comes at a time when fiscal restraint is an important priority in many advanced and developing economies. However, addressing relative inequality is of paramount concern as it creates problems that hamper the growth of society. Inequality may be a natural consequence of economic growth, but it can be moderated and managed to ensure that the more consequential consideration of social mobility is not only not compromised by growth but rather facilitated and encouraged.

Significant progress has been made in terms of economic growth and the reduction of poverty in some countries that have gone through economic transitions, such as China and Vietnam, and those where democracy has consolidated, such as South Korea and India. Many political transitions, however, are the result of reverberations of large economic shocks that break the aforementioned authoritarian bargain, as with Indonesia in 2008. Yet the ability of new democratic leaders to ensure macroeconomic stability while achieving inclusive growth, mitigating social inequality, and reducing unemployment is inevitably constrained. Therefore, it is critical to identify reforms that can immediately improve people's lives without creating dependency on unsustainable and distortionary economic policies in the longer term.

In considering the relationship between democracy, political transitions, and economic policy in the United Nations Development Programme's (UNDP) "Workshop on Asian Political Transitions and Governance" held in partnership with East-West Center in Mandalay, Myanmar, 17–20 February 2015, this reform problematic became the crux of the discussion, particularly with an eye for areas of UNDP insertion as positive change agents.

While the majority of those in the Asian region support the need for democratic norms and practices, they also maintain strong desires to improve their economic conditions and develop adequate access to services. When democracy does not provide the expected "democratic dividend" quickly enough then people become alienated from the evolving democratic process. This strain is exacerbated by the fact that democratic governments often inherit economic circumstances that make delivering on raised expectations for social and economic opportunities extremely difficult.

Initial state conditions matter, and the earlier in the stage of development countries implement a coherent and systematic set of policies, the less effort it would need to achieve maximum and long-lasting benefits. Thus, despite initial limitations, developing countries are in the best position to create guiderails for long term visions. Developing nations can potentially even see themselves as having the advantage of defining their initial state, as they may learn from the mistakes of developed countries. Developing nations face the choice of devoting finite fiscal resources to social entitlements or putting in place conditions creating good jobs and developmental opportunities. Singapore seized the opportunity to define its initial state. With only fifty years since independence, Singaporeans today enjoy one of the highest standards of living in the world with healthcare, housing, and education systems ranked among

the world's best. However, Singapore is also indicative of the social, political, and economic tensions that often have disparate mandates and goals.

In dynamic and growing developing economies there is a flux of forces at play, some resisting, some advocating for economic and political inclusiveness. Narrow elites want to be there for the long-term and they realize that the best approach is to minimize political inclusiveness (yet not stop all), while maximizing economic inclusiveness, which generates growth and higher living standards (and regime legitimacy). This approach may be ultimately unsustainable but as Singapore, and more recently China have demonstrated, you can get very wealthy with politically extractive institutions.ⁱ

UNDP and other international actors can support the movement towards inclusive economic institutions (including supporting building a “strong state”). International actors should focus on institutional change that is often the objective of donor interventions. Roles could include assisting formal institutional change (e.g. drafting of laws and regulations), or reshaping informal norms to support implementation – such as supporting campaigns to make people wear motorbike helmets or pay their taxes. (McCarty, 2015)

During implementation, somewhat paradoxically, the focus should be on the middle-class rather than the poor. The rise of the middle-class due to inclusive economic institutions is the fundamental force behind subsequent institutional change, particularly political. This process of moving towards inclusive political institutions has been evident over recent decades in the richer Asian countries, such as Japan, South Korea and Taiwan – and even Singapore. Consequently, understanding how the middle class find and express their voice, and supporting their efforts for more inclusive economic institutions is a positive way to support transitional countries. If UNDP is to be strategic about assisting transitional democracies, then UNDP needs to consider how they work with and support this emerging middle class.

Such work can be complex and taxing on international actor capacity. Modern economies are fast-changing complex adaptive systems. The evolution of such systems can be influenced by small events. A consequence of this insight is that forecasting the future is hugely problematic – yet we must plan and have such foresight in the package of interventions. As such, it may be more appropriate to have a portfolio of experimental and forward-looking options. That is, rather than making one plan and following one path, probe various options and paths, iteratively learning as they move forward and flexibly responding to stop some experiments, start new ones and build upon the successes. This “experimental approach” should be built on trusting resident experts on where and how to invest. Initial investments should be small and well (and objectively) monitored, with an expectation to close many while scaling-up a few. This approach can be complimented by sharing ideas and results (including failures) across various Asia-Pacific countries. This sharing of ideas and results should permeate the exercise. International interventions should also be about sharing information and experiences – and maybe experiments – across the involved transitional countries. This is what may be called a “transitional-to-transitional” program.

UNDP corporate goals include enhancing country-office programming by better understanding the challenges in consolidating democracy in the region. These challenges include the need for responsive governance institutions and practices, expanding economic and social opportunities to meet citizens' expanding expectations, and coping with both cross-border transnational and intrastate conflicts. UNDP efforts are expected to build on existing country-level initiatives and to address those issues which cannot be adequately addressed at the country level. Such efforts will strengthen UNDP's Asia-Pacific Regional Centre to better address political transitions and regional security.

Transitional democracies are fragile, as inclusive institutions are not consolidated and they are not underpinned by a large middle-class. It will take many decades, at least, to reach such a stable and “sustainable” state – assuming no bumps off course, which history shows can be frequent. In the meantime, the role for UNDP is to support the evolution of inclusive institutions, particularly economic institutions. Yet opportunities for institutional reform are limited and dependent on specific circumstances and individuals. Donors cannot lead a reform process, they can only latch on to one already underway. This requires donors to be truly knowledgeable about the countries they work in. All countries, for example, call for action to reduce corruption, but which ones are ready for genuine reforms to increase transparency and establish truly independent anti-corruption authorities.

This approach requires a retooling of UNDP. They must study and understand the political economy of where they work. Economies are complex dynamic systems, constantly changing. A self-confident UNDP would accept and embrace their lack of knowledge, the imperfection of plans, and the inability to reliably forecast. Given that, the approach is to take on the risks and see what works and accept failures. Just like new private businesses, who also research, plan and forecast, some fail and some succeed. What seemed like an effective intervention area can close down overnight, and visa-versa. Thus “strategy” is not about one directional guess for reform, but rather developing a portfolio of technical assistance experiments and responding quickly to feedback to follow-up winners and close losers. (McCarty, 2015)

The UNDP Asia-Pacific Regional Centre and UNDP country offices complement each other in support of the UNDP’s overall mission as the central development organization of the UN system. The UNDP Asia-Pacific Regional Centre can:

1. Offer guidance in measuring “success” in transitions and the impacts of reforms within specific contexts.
2. Offer better political and economic analysis.
3. Generate resources for facilitating national dialogues which country offices may use in developing their own processes and in training their staff.
4. Facilitate inter-regional expertise exchanges and manage regional databases, providing mechanisms for country offices to access knowledge from other country offices.

UNDP country offices can:

1. Provide specific country-based case modeling scaling up much of what was addressed in the Regional Workshop on Political Transitions and Cross-Border Governance held in Mandalay, Myanmar, in February 2015.
2. Communicate feedback on what UNDP has and has not earlier done well in specific countries.
3. Provide analysis documenting earlier UNDP successes and failures with different kinds of processes.
4. Make more strategic of use citizen surveys and perceptions about development programs.

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ⁱ Based on a draft working paper for the UNDP Regional Workshop by Adam McCarty: Economic growth and the transition to democracy: Correlations, causes – and consequences for UNDP. February 16, 2015.