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## **The Democratic Alternative from the South**

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### **Article at a glance**

- In this interview, Executive Director of the Centre for Development and Enterprise (CDE) Ann Bernstein discusses the development paths of India, Brazil, and South Africa and what the experiences of these countries tell us about whether a democratic market-based alternative to increasingly popular authoritarian approaches is emerging in the developing world. Bernstein also discusses the challenges facing these democracies and the reforms needed to strengthen them.

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30 Years of

*Democratic & Economic Reform*

*In 2012, the Center for International Private Enterprise began supporting the Centre for Development and Enterprise, South Africa (CDE) in a project to analyze the role democracy has played in the development of South Africa. This effort was part of a larger initiative supported by a number of foundations including the Templeton Foundation and the Legatum Institute to analyze the development paths of India, Brazil, and South Africa. The aim of the project was to explore whether a democratic alternative to increasingly popular authoritarian approaches is emerging in the developing world.*

*Culminating with a report titled, “The Democratic Alternative from the South: India, Brazil, and South Africa,” this endeavor has proven that market-oriented democracies can achieve remarkable success in terms of development. The report shows that democracy can indeed continue to deliver, however to do so requires deepening market reforms and fully embracing the many institutions that characterize a functioning democracy.*

*To explain the project in more detail, Executive Director for the Centre for Development and Enterprise (CDE) Ann Bernstein agreed to an interview with CIPE.*

## **1. “Since 2012, you have been leading an effort to analyze aspects of development in emerging democratic market based countries. Can you explain how this idea came about and why it is so important in today’s context?”**

This project started with a big question. During the global economic crisis of 2008, Western democratic capitalism seemed to be knocked off its pedestal and was viewed less positively, fairly and unfairly, across the world. The Chinese authoritarian system had delivered incredible economic growth

rates and moved millions of people out of poverty. In this context, we at the Centre for Development and Enterprise (CDE) in South Africa asked the question: Is there a democratic market-based alternative emerging from the developing world? Can we turn the spotlight away from China and talk about democracies and market economies in the developing world?

If you believe in human rights and freedoms, and if you believe in democracy and the market economy, these questions really matter. This is not just an academic exercise. Today there is a global contest between an authoritarian approach to growth and development, and a democratic approach. This contest is taking place in many countries around the globe.

For example, I was recently in Nairobi where we held a workshop and it was quite clear, talking to very senior people who live in that country, that there is now a new pull towards an authoritarian approach. Of course, this could be people who weren’t democrats in the first place, but it’s now much more legitimate to defend authoritarian-type actions because of the great success of China and Singapore. For example, the Prime Minister of Ethiopia, both the previous one and the current one, are openly dismissive of democracy.

It is not as simple as saying that all these countries are adopting a Chinese model – very few are – but there are now two poles. There is the American, or the Western approach, to democracy and growth and how to build a successful society, and there is a Chinese approach, and people are leaning one way or the other. However, there is no doubt that the existence of a successful China has made authoritarianism more viable and acceptable than it was a few years ago.

Over the last two years, we have conducted a very large project to address this issue involving a network of leading think tanks in India, Brazil, and South Africa established by CDE a few years ago in response to the idea that Southern democracies needed to learn more about each other.

## **2. “There are a lot of other developing democracies in the world, why did you focus on India, Brazil, and South Africa?”**

We had to choose because of limited resources and these are three very important countries in the developing world. They are, of course, very different societies – their histories are different, the composition of their populations, and so on; and yet, when you learn more and more about these countries, there are remarkable similarities.

Some 20-25 years ago, these three democratic governments faced an economic crisis, and they responded to this economic crisis with market reforms. Each introduced macroeconomic fiscal discipline, and began to liberalize their economies in different but significant ways, opening up to global markets and the creation of more competitive domestic markets.

This delivered results in the 1990s and 2000s and during that period these countries recorded very significant achievements. Often we look at these three countries and, because there is so much more to do in terms of creating wealth and bringing millions of poor people into the modern economy and society, we tend to overlook what has already been achieved. All three countries are very different societies from what they were 20-25 years ago.

## **3. “How did the methodology of the project account for all the components of a functioning democracy?”**

Our understanding of democracy goes deeper than just elections. Of course, regular elections and the opportunity to change leadership is vitally important. However, democracy is much more than that. Democracy is about independent institutions, freedom, human rights and the rule of law, separation of powers – a whole range of supporting institutions that make for a democratic culture and vibrant democratic society. That was

one of the assumptions of this project based on our definition of democracy.

We commissioned four research papers in each of the three countries, and asked leading experts in each country to address the following: “In your country, has democracy been an advantage for economic growth, a disadvantage, or neutral?” We asked the experts to also look at poverty alleviation, fighting corruption, and innovation – supposedly one of the great assets of democracy.

We then held workshops in Delhi, Rio, and Johannesburg to test the findings of the research with a much wider group of experts and policy makers in each of the countries. Following the workshops, we produced three country reports. There are now 15 research papers in total, all of which contributed to the document I wrote entitled “The Democratic Alternative from the South: India, Brazil, and South Africa,” which is an extended essay to answer the following questions – “What does all this research mean? What have we found out?”

## **4. “You mentioned that the success of China has given credence to authoritarianism. What have you discovered through this project that suggests market-oriented democracy is just as strong?”**

India, a country with over 1.2 billion people, has had some years of spectacular growth. And this has benefitted not just the rich, but everybody. Some 200 million people have been brought out of absolute poverty, and the former ‘untouchables’ – the people at the lowest material levels in the society – are now running some of the states in India. They have political power, and the rate at which they have been brought out of poverty and into new opportunities is faster than many other groups in India.

In Brazil, a country of 200 million people, there has been steady economic growth with periods of very high economic growth. Today

they have single-digit poverty, single-digit unemployment, and their Gini coefficient which measures inequality is moving in the right direction. This is a country that is now over 86 percent urbanized, and that is one of the factors, along with economic growth, that has contributed to these incredible achievements.

South Africa is the smallest country of the three with a population of 52 million people. Over the past 20 years of democratic rule, the economy has grown from approximately US\$80 billion to US\$400 billion. A number of people have moved out of poverty, and millions of South Africans now have access to services that they never had before, such as electricity, running water, telephony, and water-borne sewage, and three million more families now have a home.

What is happening in these three countries is a massive process of inclusion. Inclusion into the modern economy, inclusion in terms of status and dignity, and hope for a better future.

## **5. “Were there any areas of research that identified some of the strengths that democratic systems have over authoritarian regimes?”**

People often think that democracies are more corrupt than other societies because there is so much discussion about what’s going wrong and publicized accounts of scandal or corruption. The truth is that authoritarian states are a black box. They put a lid on these things and don’t let people talk about them. Occasionally there may be a show trial to remove a political opponent who might be corrupt, but these are generally scripted and not sincere.

What is interesting is the many mechanisms that democracies have to enable citizens and society to fight the scourge of corruption that is present in all societies. In democracies, citizens can shout about local level corruption, about state level corruption, about national corruption, and they can raise issues against the most powerful people in the country.

There are many examples of this in the report. For example, Brazilian civil society organized the National Association of Bishops. The professional bodies took action and successfully removed the first democratically-elected president, who turned out to be corrupt, without a threat to the system. Then, under President Lula – the most popular president Brazil has ever seen, a working-class hero – approximately 40 people, from his Chief of Staff to the head of his parliamentary party, were charged with corruption. Many Brazilians at the time said, “Oh, this is Brazil. They’ll never go to jail. They won’t be found guilty.”

However, the judge in charge of the trial found approximately 25 of these very prominent people guilty and they are in jail. This is a remarkable achievement, and it illustrates how different institutions in a democracy can play their part in fighting corruption among the most powerful people in the country.

In India there have been large anti-corruption protests by an increasingly urban civil society. This led to the formation of an entirely new political party that swept the board in Delhi last year. And now in the recent Indian general election we have the opposition Bharatiya Janata Party win the election with a decisive majority.

You look at all of this and you say, “Well, how can authoritarian states compete with the many institutions available to citizens in a democracy to fight corruption or to fix what is wrong in their society?”

## **6. “What are the challenges facing India, Brazil, and South Africa in terms of their economic outlook?”**

These three countries are facing challenging times today. Their achievements notwithstanding, these vibrant democracies are in economic trouble, partly as a result of the global slowdown and the financial crisis, but partly because of their structural deficiencies. Each society introduced market reforms after the

crisis in the late 1980s and early 1990s, which resulted in benefits in the buoyant 2000s. The global economy was strong and these countries had higher growth rates. To many it seemed like growth was the new normal and further reforms were unnecessary.

We are now seeing the consequences of that mentality. As a result of general economic stagnation and tighter global controls, these countries are struggling to achieve the higher growth rates they desperately need.

We identified the challenges facing these societies, which are firstly economic (they are slipping in global competitiveness; the cost of doing business has increased), but there are other challenges as well. They have very weak education systems where the vast majority of people are receiving a useless basic education. They have weak manufacturing sectors, rigid labor markets, and they are struggling to deliver on infrastructure, partly because they're failing to fully embrace the private sector and the dynamics of public private partnerships and the dynamics of markets. There are also hints of slippage with respect to the quality of their democracies.

## **7. “What reforms are needed to address these challenges and to consolidate their democracies?”**

A second wave of reforms that touches on four areas will help these three countries return to the kind of growth rates they need, continue consolidating their democracies, and bring more and more people into the modern economy.

First, they need a second wave of very determined market reforms promoting increased liberalization. The focus should be on reducing the cost of doing business, cutting regulations, and embracing the private sector in a much more determined way. Doing so will make the economies much more competitive compared to their peers. This will not be easy and has to be coupled with a

concerted effort to explain the benefits of a market economy for all citizens much more effectively.

The second area of reform involves the development of more competent states. Many people in the industrialized world talk much too glibly about how states are unnecessary and markets are the only requirement. However, all societies and especially developing countries need competent, effective states to deliver on basic public goods. This does not mean that only states can deliver goods such as public education or health. However, you need competent state institutions to contract with and regulate market players.

Regulating the private sector, as discovered in the 2008 financial crisis, is very difficult. You need competent states otherwise public money will be wasted and crony capitalism will develop. Fixing the state and making it more competent – not necessarily bigger, just more competent – is very important in a developing country.

Third, these countries need to hold on to their vibrant democracies. They are not first-ranked democracies - they are not yet Sweden or America. There are areas where they need to deepen democracy. This is going to be important in helping to achieve reforms in other areas as well. Whether it is the nature of representation in congress or parliament, or a range of other areas, these countries need to hold firm with respect to democracy and deepen mechanisms of accountability and representivity.

The fourth part of the reform package concerns redress. Economic growth is the major driver of inclusion in these societies. However, in countries like these, with deeply divided histories – where people have been discriminated against for decades, if not centuries – one needs to look at additional measures as well. This is a very good time for these three societies to reassess the measures they have introduced to determine what has worked, where unintended consequences are having a negative impact, and where improvement is needed in order to further advance inclusion of the poor.



## **8. “Implementing this second wave of reforms will undoubtedly not be easy. What strategies will reformers need to adopt if they are to succeed?”**

There are really three underlying themes. The first is that reformers in these countries can use the processes of democracy and its many independent institutions, practices and principles to build new coalitions for reform and change the language within which the national debate takes place.

We have seen this in the most recent Indian election where a new language for how to deal with India’s challenges has been introduced into the public arena (basic good governance, not bigger government, for example). This was not about redistribution, but about how to increase jobs and growth, and chart a sustainable path to development.

The second is a very big underlying theme that these countries need a much more determined embrace of the power of competitive markets that are open to everybody. In general, capitalism undersells itself and big companies are not very good at communicating the benefits they provide for the whole of society by simply doing business. Therefore, a much more concerted effort is needed to convince the mass of voters that higher GDP, faster growth, and the new policies that are necessary to reform entrenched privileges or obstacles to competition are worth the disruption, if market growth is really to benefit everyone.

The third, which is also very important, is that if you look at the first wave of economic reforms in these three countries, everybody benefited, but big business, big government, and big trade unions benefited the most. It is really important that the second wave is seen to be opening up to the excluded who cannot get jobs especially labor-intensive manufacturing jobs, the small firms that have been prevented from opening because of too much regulation, and so on.

## **9. “Is there an overall conclusion you have drawn from this study and would like to share in light of International Day of Democracy?”**

It would be nice to argue that democracy is absolutely essential for growth and inclusive development, but this is empirically false. There are authoritarian states that have delivered economic and social improvements for their societies though many have not, often ending in terrible bloodshed. We are making what might, at first, seem to be a lesser claim, but we don’t think it is. The question is: “Can you have growth, development, and inclusion coupled with human rights and freedoms?” And the evidence from three important developing countries – India, Brazil, and South Africa – supports a compelling and resounding, “Yes.”

The truth is that it is not human rights and freedoms and democracy that holds these three countries back from doing better, but bad policy choices. It is the failure to fully embrace markets in the private sector and to communicate the benefits effectively. It is weak institutions that succumb to corruption and crony capitalism. In large, complex developing countries, vested interests can preserve the status quo; however, we think that democratic politicians and leaders can build new coalitions and use the many mechanisms of democracy to change the definition of the national interest and determine national priorities.

Of course, there are no guarantees that these three countries will do this. But we believe it is possible that they can, and that the three countries can implement a second wave of reform. Democratic governments introduced major reforms in the past, and if they do this again the emerging democratic market-based alternative from the South will be strengthened.

None of these countries offer a blueprint for other countries, they’re too complex. Nonetheless, they do offer important lessons, ideas, and examples for other developing societies. We would argue that

their existence and continued success is of vital importance for everyone – in the West and in the developing world – who care about democracy and market economics. So the bottom line is this: there is a democratic alternative emerging from the South embodied in India, Brazil, and South Africa. These are three pivotal countries to watch.

To download “*The Democratic Alternative from the South: India, Brazil, and South Africa*,” written by Ann Bernstein, as well as the individual country reports, visit: [democracy.cde.org.za/publications/](http://democracy.cde.org.za/publications/)

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*She is a regular public speaker and has been published by newspapers around the country, often appearing on radio and television. Her many other publications and books include Migration and Refugee Policies (with M. Weiner, London, 1999), Business and Democracy: Cohabitation or Contradiction? (with P.L. Berger, London, 1998), and Policy Making in A New Democracy: South Africa’s Challenges for the 21st century (CDE, 1999).*

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