# Sustainable Governance in the BRICS

## Conclusion

SGI Sustainable Governance Indicators

BertelsmannStiftung

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## A Cross-national Comparison of the BRICS in View of Governance

*Economic growth alone cannot advance sustainable development*

The rhetoric of growth associated with the popular BRICS acronym should not permit us to overlook an important fact: there is in each of these countries an enormous need for reform in key policy areas and associated governance structures. Even investment bank Goldman Sachs, which coined the widely used acronym and shaped the discourse of growth associated with this group of countries, identifies in a recent report key factors that must be in place if economic growth is to develop in a sustainable manner. Along with macroeconomic stability and openness to foreign investment, these key factors include competent and stable institutions, a reliable judicial system, and functioning education and health systems.

A look at recent World Bank and United Nations indicators shows that each of the BRICS countries continue to show considerable need for reform in precisely these key areas. Furthermore, each country in this group suffers from massive levels of corruption. This problem bears considerable risks, since a reliable legal framework and the effective control of corruption are not only prerequisites for effective policy implementation, but are also of critical importance for the stability and legitimacy of a political system.

However, this volume's comprehensive comparative study looks at issues well beyond corruption. With the help of the SGI indicators, the survey draws a comparative profile of the strengths and weaknesses of the BRICS countries, containing both an analysis of reform needs in key policy areas and an assessment of governance capacities within the BRICS states. In short, it is not only about the need for reform, but also – in the broadest sense – about the BRICS countries' capacity to engage in reform. A comparative evaluation of the findings of the survey's core dimensions shows that the five countries have very different developmental prospects – prospects that at times contrast sharply with the oft-repeated rhetoric of growth and progress.

At the outset it must be emphasized that each of the BRICS countries face enormous present-day pressures, the reach and impact of which vary from state to state. However, some of these problems will only grow in the future. In addition to the threat of mounting political and social instability rooted in massive social inequality and corruption, there are growing risks of infrastructural failure as many have not kept apace of the rapid economic growth in recent years. There are also growing demographic pressures weighing heavily upon labor markets and social welfare systems. Finally, there are problems associated with the unsustainable exploitation of natural resources and environmental and air pollution that have accompanied rapid growth.

Combined together, these pressures create a highly complex set of problems to be addressed today's and future leadership in each of the BRICS states. For at least some of the BRICS states, it is far from clear that the optimistic development scenarios envisioned by investment bankers often concerned narrowly with core economic parameters can be realized. Even if the rapid rates of growth do remain at their high levels, problems associated with economic growth will not be automatically solved. In fact, BRIC countries already marked by enormous regional and social disparities will only see problems of social inequality and environmental sustainability further exacerbated.

International organizations such as the World Bank and OECD Development Centre have observed in recent years a growing number of emerging economies in Asia, Latin America and the

Arab world a pattern of rapid economic growth accompanied by increasingly fragile social cohesion. The fruits of economic growth in these countries have clearly not been distributed so as to facilitate greater opportunities of participation to more people in society. Instead, socioeconomic gaps in many of these countries have widened, a trend that does not bode well for social cohesion and political stability.

Coordinated policy-making, as the OECD Development Centre's think tank stresses, is essential to steering these countries down a sustainable path. History has in fact shown that only emerging powers such as South Korea or Taiwan that have made the right policy choices at the right stage in their economic development, making critical advances in reform of their education, health and innovation systems, have managed to sustain solid growth without falling into the middle-income trap.

In order to achieve sustainable growth with broad impact throughout society, governments must therefore be able to facilitate economic diversification and domestic economic growth while at the same time develop infrastructures, and restructure economic, health and social welfare systems. According to the current international research, meeting these complex targets requires particularly effective governance capacities and structures. In short, effective governance is to a large extent the key to success. The findings presented here show where each of the BRICS countries stands in terms of this – that is, how well they make good use of their potential to overcome the challenges they face, today and tomorrow.

***How do the BRICS countries' prospects compare in the context of the SGI's findings?***

## Russia

A closer look at the SGI findings for Russia clearly shows that the country's current economic growth derives almost exclusively from an extensive exploitation of natural resources. The country has failed to diversify its economic structure, investments in infrastructure are long overdue, and – of particular concern – there is no long-term economic strategy in place. A development trajectory that relies not only on rich natural resources would reduce exposure to global economic fluctuations, while at the same help reign in Russia's rising levels of environmental pollution. At the same time, growing inequality within Russian society is giving greater impetus to the country's burgeoning political protest movements. The political, economic, social and environmental challenges for Russia are thus immense.

However, Russia's current governance capacities are not well suited either to addressing these problems effectively or to producing long-term solutions. Indeed, the SGI experts paint a rather bleak picture of Russia's political reform capacity in comparison to the other BRICS. Throughout the entire category of the government's steering capability, it is evident that Russia has considerable catching up to do when compared to the other BRICS countries, with the country showing significant weaknesses in each of the category's individual aspects. Putin's regular, direct intervention and influence ("manual control") detracts from the central government's strategic capacity and the efficiency of interministerial coordination. To be sure, Russia's political system has shown a few individual developments toward greater government efficiency, for example through the introduction of regulatory impact assessments (RIA). However, in light of political patterns that are often fragmented and clientelistic (featuring considerable levels of patronage), a lack of consultation with independent experts or stakeholders within society, and an often contradictory communications policy, forward-looking policy-making in the sense of sustainable governance hardly appears possible in Russia today.

These massive problems are echoed in the government's capacity to effectively implement its policies. Here too, Russia is ranked in last place in comparison with the other BRICS countries. Russia's government performs particularly poorly in the case of policies with broad impact, which are absolutely dependent on implementation by a number of ministries and their subsidiary agencies. Nor does the medium term offer much hope of improvement here; Russia also shows the BRICS states' lowest performance on the criterion of "organizational reform capacity," which addresses the issues of institutional self-monitoring and adaptability. It is difficult to note any systematic, critical stance toward existing institutional arrangements.

Finally, structures for genuine civil society engagement and participation remain weak in Russia, detracting further from the sustainability of governance. To be sure, the government did respond to the massive popular political protests following Putin's re-election as president, initiating certain reforms. At best, this may lead to more political competition and a weakening of the inefficient vertical pattern of government that has existed to date. However, the inertia of the bureaucratic elites is substantial enough that the outcome and long-term effect of these tentative steps toward reform is very uncertain.

In examining the BRICS group's current status quo in terms of participation and government accountability to citizens, parliament and civil society organizations, only China performs more poorly. Given the state influence over the media, a Duma with weak de facto oversight powers, and the government's failure to integrate stakeholders within society, it is difficult to speak of an effective public and democratic sphere of oversight. Should these overall conditions and governance shortcomings persist, the prospects that Russia will successfully be able to address the core problems outlined above are poor.

### *India – Facing immense pressures, but considerable reform capacity at the national level*

The outlook for India, by contrast, is somewhat more ambiguous. The country's economic prospects are positive, thanks to favorable demographic development. If one believes the Goldman Sachs projections, India will see stronger long-term growth than China, achieving annual growth rates of more than 5% over the next four decades. By the year 2034, India's population is expected to exceed that of China, making it the most populous country in the world (cf. GMS 2012: 49).

According to the SGI experts, however, these optimistic growth projections for the subcontinent will depend on its ability to overcome enormous social disparities, modernize its infrastructure as a basis for industrial development, and make progress in the health and education sectors. Without substantial progress in these areas, the coveted urban white-collar jobs will in the future remain out of reach for the vast majority of India's population. The dynamic economic development of recent years, along with successes in the education and health sector, particularly in the country's economic centers, cannot hide the fact that a very large proportion of India's population still lives in abject poverty. Compared with the other BRICS countries, the share of the population with a college degree is also rather low.

However, it is cause for optimism that India, fares comparetively well in terms its governance capacities and enjoys considerable greater reform capacity than does Russia. SGI experts offer a favorable evaluation of the Indian central government's directive capacity (at the national level). India's top position on the criterion of strategic capacity can be explained in part by the strategic role played by the cabinet, the technical expertise and strong coordinating function of the Prime Minister's Office, the active exchange between scholars and the government, and consultation with societal groups that is to some extent institutionalized for important policy proposals.

The quality of implementation exercised by India's government has also enabled tangible progress with respect to the previously noted political challenges, earning it the number two ranking on this issue, after Brazil. Primary achievements include strong and widespread increases in school enrollments, the near-elimination of the gender gap in education, and expanded offerings in technical and vocational training. Other specific policy implementation successes include a new health insurance initiative for the poor, the national implementation of measures to generate employment in rural areas, and considerable improvements in the realization of planned spending for budget items.

Like China, however, India features a certain geographical disparity in the quality of implementation. Some individual states such as Kerala have achieved goals in areas such as health care, education or political participation significantly more quickly than others. Furthermore, task funding at the subnational level is a serious problem. India has at least established a system of central-government grants and an interstate tax-revenue sharing system, with the aim of improving state-government finances. However, this often remains inadequate to needs, particularly in rural areas.

In the area of governance, the government must strengthen the effectiveness of oversight mechanisms in order to combat rampant corruption. Among such measures would be a functioning ombuds mechanism and a stronger audit office. Expanding the capacities of such institutions will be necessary in order to avoid further risking a loss of trust on the part of the population and of foreign investors. India's current credit rating, as assessed by the major rating agencies, is only a little over the level of "junk." The mass protests following in the wake of corruption scandals paint a vivid picture of just how paralyzing and destabilizing it can be when popular trust in the performance of the political system is lost.

### *China – Continued economic growth requires far-reaching reforms*

China's classification in comparison with the other BRICS is also somewhat ambiguous. On the one hand, the country experts note that it retains considerable unexploited potential even after the rapid economic growth of recent years, and important economic policy weaknesses have already been addressed. However, the continuation of China's growth trajectory cannot be taken for granted, and is predicated on far-reaching reforms being taken in central policy areas as well as within the governance system itself. A number of factors threaten sustainable economic development in China. The high levels of inequality, especially between the urban and rural populations and between the coastal provinces and the western regions, are of particular importance. Migrant workers, who are effectively excluded from the social welfare and health care systems, now number 200 million.

Demographic change and the closing of the demographic window due to the decades-long one child policy are taking place at a speed as impressive as that of recent years' economic growth. This development will place the labor market, infrastructure, education and social systems under enormous pressure. The state-controlled financial system is also greatly in need of reform, according to experts. Growing environmental problems and an emerging housing bubble raise further questions as to the sustainability of the political leadership's current course. Corruption and inadequate legal certainty also figure prominently as potential sources of citizen unrest. In fact, the number of annual violent protests has increased to 100,000, according to SGI experts.

Unresolved conflicts in Tibet, inner Mongolia, and the provinces of Xinjang and Yunnan pose serious risks to political stability in the People's Republic.

It is not at all clear whether China will prove able in the long run to provide long-term sustainable policy solutions to these problems. In comparison with the other BRICS countries, China's system of governance shows varying levels of performance. On the one hand, the country stands out for its particularly strong focus on long-term strategic policy planning, which is reflected in detailed planning documents and multiyear policy agendas. The hierarchically driven interministerial coordination also functions quite effectively. However, it is questionable to what extent the government does consult with independent academic sources – an important aspect, given the complexity of problems at hand. The same applies to the targeted involvement of civil society stakeholders in the sense of societal consultation; here, too, the government fails to secure long-term support for its policies. For these reasons, China's steering capability receives nothing more than a middling rank in BRICS comparison.

Like India, China's multi-level political system suffers from severe regional disparities in terms of the quality of governance. This is manifest most clearly in terms of the poor public services on offer in peripheral regions. Regions are largely dependent on their own income for implementation of the central government's agenda. This results in significant differences in the quality of implementation between economically and fiscally strong (often urban) areas and the primarily agricultural interior.

In the fight against corruption, China lacks both a free media system and a civil society sector independent of the state, either of which might otherwise play a watchdog role. Courts in China also lack independence from the executive.

For the last three decades, China's government has distinguished itself through a high degree of adaptability and flexibility. The question for the future will be whether China's leaders can retain this adaptability, and – particularly with an eye to the rapidly closing demographic window – engage in the necessary social reforms. Opposition and power struggles by influential interest groups within the Communist Party of China (CPC) have to date prevented any reversal of these profoundly negative trends. Any future Chinese leadership is bound to inherit a considerably difficult set of challenges that will be difficult to tackle in a context of increasing demographic pressures and slowing growth.

### *South Africa – Laudable adaptability, but trenchant problems persist*

South Africa's democratic consolidation has made substantial progress, and the principle of the rule of law is becoming widely accepted by political actors. Despite high levels of state debt inherited from the apartheid era, South Africa has since successfully restored macroeconomic stability, reduced state debt, strengthened the welfare state and generated notable levels of economic growth. However, the growth of recent years has not had the positive impact on the labor market needed to combat social disparities effectively. Poverty and extreme social inequality continue to represent enormous problems. South Africa has the highest levels of social inequality within the BRICS group, and the legacy of past apartheid continues to weigh heavily on the present. A focus on employment-intensive growth is therefore absolutely essential in order to combat structural poverty and unemployment.

In comparison to Brazil, Russia, India and China, the SGI country experts rate South Africa as showing the worst policy performance in terms of labor market and education policy. In the area of infrastructure development as well, South Africa faces enormous challenges. In recent years, the high demand for energy has led repeatedly to power grid overloads and devastating power outages, a situation partially attributable to the dominant position of the state-owned Eskom power company (cf. Gu/Mayer 2012:12). Moreover, the tax-based financing of welfare-state benefits is far from sustainable.

It is difficult to assess whether South Africa's reform capability is sufficient to meet these political, economic and social challenges. In terms of governance capacities, South Africa currently holds a middling position within the BRICS group.

Interpreting the middling position held by South Africa within the BRICS group in terms of its governance capacity requires a closer look because of how this rank masks the discrepancies between individual dimensions of analysis. On the one hand, recent developments point to an improvement in reform capacity, though shortcomings persist. On the other hand, in more encouraging developments, the government has recently made important changes to its institutional arrangements, thereby enhancing its strategic capacity. Academic expertise is used by the government, and civil society actors and interest groups are in general successfully involved in the policy-making process. However, in this area it appears that the political dominance of the ANC party means that trade-union-associated interest groups are given preference. Overall, South Africa's performance in the area of consultation with stakeholders in society is on par with that of the other BRICS democracies, India and Brazil.

However, the South African government shows clear potential for improvement in its communication policy, and to some extent in its interministerial coordination as well. The government's ability to effectively implement policy objectives also falls somewhat short. Despite certain successes in the implementation of social programs, glaring weaknesses are evident in the key areas of education and the labor market, a heavy burden for the country to bear. The growing strength of political camps within the ANC (associated with a growing factionalism) and the considerable levels of patronage within the party undermine effective decision-making and implementation. In addition, finances at the subnational and local levels are not used effectively enough, as the bureaucracies at these levels often lack the necessary competencies and abilities to spend the funds allocated to high-impact projects wisely. In this context, the high levels of corruption and nepotism represent an enormous problem.

However, South Africa does benefit from the positive and constructive role played by civil-society actors, an aspect in which it shows parallels with India and Brazil. In this respect, the democratic regimes of India, Brazil and South Africa are significantly better positioned for the future than are Russia and China. South Africa even performs best in this area among all the BRICS states.

Yet this development must without question be further strengthened. The mediocre level of political knowledge citizens show today should be counteracted through better media and educational offerings. Moreover, these offerings must be made accessible to the entire population, regardless of social or geographical origin. In addition, South Africa should expand the parliament's de facto executive oversight powers, and eliminate any remaining inefficient structures. This may prove a particularly difficult task, given the longstanding majority position held by the ANC.

### Brazil – Among the BRICS, best-positioned to resolve long-term social problems

The country experts rate Brazil as the most promising of the BRICS states in terms of current key policy trends and the quality of its governance capacities. South America's largest country remains affected by the legacy of its past decades-long military leadership and continues to labor under the pressure of problems such as poor infrastructure and high levels of social inequality. However, the country has been quick to recognize the signs of the time, and in recent years implemented important reform measures that the current administration has elected to continue. Thus, in parallel with economic diversification, substantial improvements in the country's social development have been made. In the last decade, the incidence of extreme poverty has been reduced by half, and about 20 million Brazilians have climbed successfully into the middle class.

Both developments speak to the success of the new social measures, of an active minimum wage policy and of the "Bolsa Familia" reform program begun under President Lula. These reforms have focused on the formalization of labor relations and on a significant increase in social and income transfers. A pioneering step was taken by linking social transfers to children's school enrollments. During the first legislative session of Lula's presidential term, real minimum wages rose by a third. These developments in Brazil show that the fight against poverty and social inequality through systematic policy reform may be a protracted one, but that progress is definitely possible.

Brazil's most pressing need for further reform is in the area of education policy. The country's education system underperforms considerably in international comparison, as attested to by the country's PISA results in recent years. Despite progress made, Brazil managed to climb only eight slots from 2000 (53rd) to 2009 (65th) on the PISA ranking. President Rousseff has declared overcoming social disparities in education a key political goal, and educational expenditures have risen accordingly in recent years.

Unlike the oil-importing countries of China and India, Brazil has the advantage of oil autonomy, and nearly half of its energy profile is made up by renewable energy sources. Hydropower alone satisfies 15% of Brazil's energy needs, and accounts for 80% of the country's electric power generation. Despite the extensive land usage and resulting environmental problems, Brazil's environmental policy is judged as being relatively positive, particularly in comparison with the land-rich countries of Russia and China. Future environmental performance will depend on the new government's ability to take effective measures against deforestation of the tropical rain forest, and whether, as announced by President Rousseff, clear-cutting of the Amazon region can in fact be successfully reduced by 80% by 2020.

Brazil's challenges without question remain significant. However, a look at the country's governance capacities also suggests that it can maintain its previously positive development trend. This said, the government should strengthen its steering capability further. In direct comparison with other BRICS countries, Brazil lags somewhat behind in terms of strategic planning capacity, although institutional arrangements have been continuously improved over the last several years. RIAs are still not required today, but a strengthening of this type of instrument can be observed in recent years. A number of other quite good approaches to successful interministerial coordination and policy steering are evident, particularly in the president's Office of the Chief of Staff.

In comparison with the other BRICS, Brazil's government also performs very well in terms of the quality of policy implementation. However, performance does depend on the specific policy area. While the country has been particularly successful in the area of social policy, it lags somewhat in terms of infrastructure and industrial policy. The government also failed to win National Congress approval for a tax reform proposal.

Nonetheless, the SGI experts note that despite many good approaches and developments, the governance capacities of the Brazilian executive are still hampered by the predominance of short-term politics over long-term interests. This leads to shortcomings in terms of solid planning, and undermines the stability of governance structures that might otherwise better resist various political influences and permit greater institutional efficiency and transparency. While implementation quality is critical, the need to strengthen the government's bargaining capability vis-à-vis the National Congress is perhaps even more urgent.

Like South Africa and India, Brazil already has a very considerable body of sustainable governance preconditions in place today: The Lula government provided an impressive demonstration of the potential that lies in actively involving civil society during a time of comprehensive transition. Stakeholders in society have thus gained significant influence in recent years.

The SGI experts agree that this influence is stronger in periods when elections are near, as is common in other democracies. However, in Brazil their influence has climbed continuously over a course of years, even independently of elections. Thus the institution of free, periodic elections is no longer the only means through which the Brazilian government remains accountable to societal interests. Rather, an everyday democratic practice seems to be cautiously developing, in which the government consults with and seeks to involve societal stakeholders during the legislative session. But as the SGI experts note, this practice is strongly dependent on the level of engagement shown by individual governments and their members. The new government under Dilma Rousseff would do well to maintain this openness towards civil society.

According to the country experts, the overall trend is encouraging as Brazilian governments have sought to modernize their institutions, improve cooperation within government while strengthening regulatory quality and strategic planning alike.