

*Social Capital and Human Well-Being: A Southeast Asian Perspective*

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Abstract

The essay reveals the contingent development and failures of the development process. It concludes that developing countries in Southeast Asia need community organizations to strengthen social capital as it is one of the indispensable factors to improve human well-being, in particular those living in rural areas. To improve Southeast Asian economic development, the essay implies that it is necessary to avoid a one-size-fits-all approach to implementing development policies and, as a consequence, there is a need for further research on social capital, individual characteristics, and community contexts.

## **1. INTRODUCTION**

The central idea of this essay is to propose the role of community organizations, and to delineate why community organizations outperform other strategies or interventions that attempt to benefit low-income people and communities within Southeast Asia. The developing countries in Southeast Asia mentioned in this essay include Cambodia, Indonesia, Lao PDR, Malaysia, the Philippines, Thailand, Vietnam and Myanmar. Whilst Singapore and Brunei are located in the same region they are not included in this essay since they are much more advanced than the others.

The unit of analysis is at the community level and effective community organizations are of interest because local communities in developing countries often find themselves inefficient due to issues such as a lack of information, unequal power, principal-agent problems, an absence of coordination and control, and so forth. To handle these obstacles directly, it is clear that the community itself needs to be well-organized.

The concepts on which this essay relies include a collective action view, institutionalism, contingency, and embeddedness. Although there is a wide-ranging debate about human nature, namely the duality between social determinism and free will, which relate directly to the point we discuss about whether or not communities can possibly adapt, this essay intends to support the role of agents. The paper is offered on the conceptual basis that everyone experiences both deterministic and voluntaristic circumstances. Individuals and their institutions may be determined by exogenous forces such as social contexts and environments in their localities; yet an interactive and proactive role of agents is still possible and must be done in order to overcome structural difficulties.

The essay is presented step by step. The problem of growth without development in Southeast Asia is raised for discussion first as it is the point where the idea sparked, leading to further discussion on the contingency of rural development caused by market and government failures, and divergent community characteristics. A solution is then proposed asserting that community organizations are needed to work directly for the community. In order to get the community organizations right and effective, they must accompany social capital. The conclusion drawn here implies that further empirical research on dimensions of social capital is needed to prove the proposition of this essay.

## **2. CONTINGENT NATURE OF RURAL DEVELOPMENT**

Development policies focus on economic growth, resulting in an extensive monoculture and the expansion of industry and international trade, and have an affect on natural resources. In return, those who are most influenced by environmental degradation are poor people living and depending on such natural resources. Streeten (2001) has warned that globalization through international trade and investment appears to be good for the richer countries characterized by, for instance, asset holders, well-educated actors, risk-takers, large firms and so on, but negative for poorer countries, unskilled labor and local communities. Nonetheless, this essay is not written to argue that globalization is an evil. It is written to insist that local communities can do something meaningful to handle the dynamic world.

Considering economic growth and income distribution, most of the local communities in Southeast Asian countries consist of people who currently experience livelihood problems; even though GDP in each country continues to grow. This difficulty results from the fact that incomes are not equally distributed. Economic growth has benefited some people and made them richer – bringing about an affluent urban middle class – while the majority, especially in the countryside, has seen only a slight share of this prosperity.

**Table 1: Measures of Income Distribution**

Country	GDP Growth (%) (Average 2008 – 11)	Year	Gini Coefficient	Lowest 20% Over Highest 20%
Cambodia	3.8	2009	36.0	0.18 (7.9/44.5)
Indonesia	4.7	2010	35.6	0.18 (7.6/43.7)
Laos	6.4	2008	36.7	0.17 (7.6/44.8)
Malaysia	2.2	2009	46.2	0.09 (4.5/51.5)
Philippines	2.5	2009	43.0	0.12 (6.0/49.7)
Thailand	1.4	2010	39.4	0.15 (6.8/46.7)
Vietnam	5.0	2008	35.6	0.17 (7.4/43.4)

Source: World Bank, World Development Indicators Online, 2012

Note: Data not available for Myanmar

Table 1 represents the income distribution of developing countries in Southeast Asia. Although there were some shocks that impacted on economic growth, for example the subprime crisis in 2008-2009; and the 2010 violence and 2011 severe flooding that occurred in Thailand, the average GDP growth 2008-2011 in each country was still positive at satisfactory rates.

Considering the inequality, Vietnam and Indonesia have the lowest Gini coefficient of 35.6, whereas Malaysia has the highest of 46.2, which means it is the most uneven among its neighboring countries. The Philippines is comparable to Malaysia, while the other countries seem to have somewhat lower values of the Gini index. To see the trend of inequality between the two extreme groups – the very rich and the very poor – the ratio of "income share held by the lowest 20%" to "income share held by the highest 20%" also reveals a similar trend. In Malaysia, the disparity is more than ten times. Chongvilaivan (2013) underlined that this pattern of economic growth implies that increasing inequality in Southeast Asia is driven primarily by the extent to which incomes of the rich surge at a faster pace than those of the poor.

The failures of rural development, inequality of income distribution, and continuing poverty result in the level of human-well-being reflected by the Human Development Index (HDI) – a composite index measuring the levels of life expectancy, education, and income. Only Malaysia seems to be in a desirable position, while all others are at medium and low.

**Table 2:** Human Development Index, 2012

	Cambodia	Indonesia	Laos	Malaysia	Philippines	Thailand	Vietnam	Myanmar
HDI	0.54	0.63	0.54	0.77	0.65	0.69	0.62	0.5

Source: United Nations Development Programme, 2012

The above fact inevitably voices concerns about the uncertainty of an unreliable distribution of economic growth. As stated in the *Human Development Report 2013*, “Economic growth alone does not automatically reflect progress when it comes to human development.” This phenomenon is called growth without development. Thus, the essence of this section is to understand why developing countries in Southeast Asia are still far from satisfactory in terms of human well-being.

In Southeast Asian countries, ones that followed market or government orientation often have failed in bolstering development. This is because developing countries often encounter several obstacles that can distort market mechanism, and undercut the anticipated results of development programs provided by their governments.

Next, market and government failures, and community characteristics are viewed as the important factors that result in contingent development in the context of developing countries.

### **2.1 Market and Government Failures**

In a free market economy, resources are allocated by invisible hands in accordance with consumer demand. The market is the place where those who supply and those who demand a product or service come to trade at an agreed price. Thus, the price will be a mechanism for clearing the market in which both transacting parties are satisfied. However, price mechanisms can never guarantee an equitable income in society (Thirlwall, 2006). In addition, it is possible that price mechanisms cannot reflect marginal costs due to market imperfections. When the market does not work as expected of the ideal, there will be failures. And if the market fails, the economy fails (Chang, 2002).

Market failures bring even more trouble to the poor in developing countries. Thus, there is a call from poor people, scholars, and those who are involved in rural development for government intervention in the development process or even to interfere with the market mechanism and to arrange plans for resource allocation. However, governments cannot possess sufficient knowledge to efficiently allocate resources. The governments of most developing countries often fail to deliver even the most fundamental public goods such as law and property rights, as well as essential infrastructure such as education, health services and transport. To push these types of intervention, many go deeper into fiscal crisis due to the increasing expenditure. It is suggested that the government has a crucial role to play in economic development, but not too much as a direct provider; rather as the facilitator to build up a good environment in which economic activities can flourish (Thirlwall, 2006). Thus, there is available space for local communities to play an active role in economic development.

However, the fact that market and government often have failed to enhance rural development does not mean to reject price mechanisms absolutely. In fact, it is a matter of an alternative possibility. Here, it is proposed that developing countries in Southeast Asia are in the contexts that are far from the assumptions required to make price mechanisms work properly – reflected by a lack of infrastructure, limited knowledge and skills, unequal power,

principal-agent problems, and so on. As a result, ideal markets do not exist in these contexts and that causes inequality of opportunity, income distribution, and transactions between various parties. Of course, the alternatives to price mechanisms are manifold (Douma and Schreuder, 1998) but in this essay the community characteristics are paramount. Therefore, community organizations are the proposed alternative expected to work best for spurring rural development in these contexts.

## **2.2 Community Characteristics**

Putnam et al. (1993) studied the community characteristics that affect economic development in Italy. He found that horizontal association between people can foster cooperation for the mutual benefit of the community. The critical factor in explaining the effectiveness of the regional governments in Italy is to be found in differences in social capital. Rich regions in the northern part of Italy have more social capital than the poorer southern regions. Relationships of people living in northern Italy are based on mutual trust and shared values, whilst based on power and control for those living in the southern regions – the activities of the Mafia for example. This implies that community characteristics do matter in the economic development process.

Comparing the role of market mechanisms, government intervention and community characteristics, it is argued that community features play a more important role in rural development in the context of Southeast Asian countries. Again, this is not to reject the role of markets and the governments, but according to Knack and Keefer (1997), Boix and Posner (1998), and Özcan and Bjørnskov (2011), the effects of such approaches tend to occur in politically free countries, especially in the Western world, in which the preferences and expectations of individuals are more likely to affect formal institutions and policy. In addition, the development process could not work effectively in the community that upholds some of the bad characteristics of social structure, for example inactive participation, free riding, and opportunistic behavior.

Rigg (2012) has made this clearer by asserting that community contexts matter sub-nationally, in terms of type of household and livelihood, and the specific geographical characteristics of areas in terms of culture, environment and economy (Table 3). Rigg pointed out that even when income is equivalent households would exhibit varying levels of resilience responding to economic and political and social phenomena. People living in the community will be unequally vulnerable, and their chances of falling into poverty or exiting from it will be different.



**Table 3: Community contexts**

Context	Example
Geographical characteristics	<ul style="list-style-type: none"> <li>○ Proximity to a town or other centre</li> <li>○ Availability and access to transport infrastructure</li> <li>○ Customary norms (dowries, funeral feasts, etc.)</li> <li>○ Community support structures (social capital)</li> </ul>
Household characteristics	<ul style="list-style-type: none"> <li>○ Asset profile</li> <li>○ Age structure (life course moment) of household</li> <li>○ Balance between farm and non-farm income</li> <li>○ Headship (female-headed plus age of household head)</li> <li>○ Household size and ratio of dependents</li> <li>○ Education level of adult household members</li> </ul>
Event character	<ul style="list-style-type: none"> <li>○ Serious illness/injury</li> <li>○ Production fall (crop failure) due to flood, drought or pest attack</li> <li>○ Economic crises/failure, either general leading to redundancy or inflation or specific (for example, steep fall in commodity prices)</li> </ul>

Source: Rigg, 2012

Rigg also voiced concerns about spatial, social and temporal contingencies by proposing the four axes of development contingency, including:

- **Country conditions**

The capacities of a country emerge from existing political, institutional, social and economic conditions. Thus, it is clear that the capacity of developing countries to make structural adjustment and to adapt to change properly is limited. This often leads the governments of these states to fail in the development process.

- **Historical contexts**

The political, social, cultural and economic setting for a particular community also matter. An historical background is viewed as the key source of knowledge concerning human behavior, and economic and social issues. In this perspective, economics is culture-specific. Cultural contexts shape divergent patterns of behaviors. Thus, economic approaches to development are not generalizable over space and time.

- **Personal circumstances**

Personal circumstances involve a complex assemblage of assets and capitals that individuals and households bring to bear in their lives. In order to solve the problem of poverty in developing countries, it is necessary to bear in mind that poverty is not about low income below the poverty line. Rather, it is all about the circumstances that cause difficulties to one's livelihood. For example, the population living below the national poverty line in Thailand in 2009 was just 8.1%. However, there were many more people who still suffered from being deep in debt and lacked basic needs.

- **Human characteristics**

Human characteristics influence the choice and behaviors of individuals and collectives in responding to economic and social activities. Culture and societal norms play an important role in shaping human behaviors and cause differences between people living in different cultural contexts. Weber (1958) wrote the economic function of culture brings about different

economic outcomes. The example was European Protestantism, which differed from the existing medieval Catholic worldview. Ethically, Protestants acted in different ways. For instance, children were expected to read the Bible, and that improved the literacy rate; the reduction of holy days improved productivity. Harding (1987) and Haraway (1988) also found that institutions, such as ethnic, class and gender backgrounds influence work carried out and the knowledge produced by people.

The conclusion arrived here is that a community's characteristics play a crucial role where development is situated in time and space. This implies that both contexts and policies require smooth adjustment. It is in the sense that contexts should change to accommodate policies and, at the same time, policies should also be adjusted for a given context. This is the matter of contingent development intentionally emphasized in this section. And this also is the rationale to raise the role of local community organizations as active agents in adjusting their contexts through coordination and control.

### **3. COMMUNITY ORGANIZATIONS AND SOCIAL CAPITAL**

Part 2 revealed the contingent nature of rural development, the question of how to deal with such contingencies arises. This section is devoted to discussing this matter. Primarily, this essay emphasizes the contingent nature of rural development, claiming that there are several factors that subdue the effectiveness of the development process in the context of developing countries in Southeast Asia. It is reflected that development projects should not be designed, dealing with all communities uniformly, but, rather be adapted to different levels of existing community contexts.

On the community side, what action would be appropriate for developing countries in Southeast Asia to take? Based on the previous discussion, the answer must be an approach that takes spatial, social and temporal contingencies into account. Consequently, community-based organizations are recommended in this essay. The reason behind this is simple but sufficient that no one knows the problems of a local community better than that community itself. It is suggested in the study of Uphoff (1993) that formal and informal groups in a local community are important as channels for development.<sup>1</sup> These groups are revitalized especially when the government and market fail to meet people's expectations and needs. This suggestion follows Ostrom (1990), an institutional economist, who showed solutions that go beyond the state and market when addressing problems related to common resources in developing countries. Ostrom insisted that collective action is more effective than enforcing rules imposed from external sources.

But what is the fuel that makes local communities work? It is argued in this essay that the answer is social capital. Social capital plays a significant role in economic and social life at community level since production and consumption are simultaneously physical and social activities and take place in given social contexts, which are organized in particular ways. Social relations strongly influence the ways in which production and consumption are organized and, as a consequence, structure the nature of everyday life (Perrons, 1999: pp.94).

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<sup>1</sup> It is possible to have negative effects if the groups are built up with negative purposes, such as lobbying behavior, mafia, etc. However, these kinds of groups can be dealt with through effective coordination and control.

If considering social capital as fuel, community organizations would be the vehicle. When they are ready, these two factors will move members of local communities forward.

### **3.1 Effective Community Organizations**

The roles of markets normally are: 1) to efficiently allocate resources, 2) to enhance full employment, 3) to stimulate economic development, and 4) to distribute knowledge and information. But all of these have often failed in developing countries. To answer why, it is possible that the market alone cannot work to completely accomplish these four tasks because the market is not just an institution in the economy. Institutions in terms of trust, norms, culture, religions, and so on also influence the outcomes of the economy. It is in accordance with North (1994), who has asserted that institutions form the incentive structure of a society, and [social], political and economic institutions, in consequence, are the underlying determinants of economic performance.

This would be the reason why developing countries have long been stuck in poverty although they followed a market-oriented economy. It is their institutional structure that still lags behind and causes mistiming when joining a modern economy. Thus, to, “get the price right” in accordance with a market-oriented economy is not enough. For developing countries, it is also necessary to, “get the institutions right”. To do that, effective community organizations are needed.<sup>2</sup>

Speaking of how to be more effective, Coase (1937) proposed organizations and markets as alternative coordination devices. He moved away from a traditional approach by assuming that within an organization, instead of the price mechanism frequently used in mainstream economics, authority is the alternative mechanism to determine resource allocation. It is necessary to add that the authority proposed in here must be in the form of a democratic authority since community organizations would be expected to respond to the needs suggested by people living in the district.

What is the implication of this alternative approach? It could be said that this approach implies the possibility for adaptation and management. From the natural selection point of view, some may argue that there are constraints that limit adaptation. In addition, institutional change might not be easily possible, especially informal institutions in regard to habits, norms, religions, and other cultural matters existing in a community. But it is argued, based on the collective action view, that adaptation is possible through effective community organizations. The proposed community organizations should be considered as an organized visible hand contributing directly to improving quality of life for which developing countries have long been in need.

To be concrete, adapted from Wijayaratna (2004), it is suggested in this essay that community organizations on the basis of social capital could facilitate and support mutually beneficial collective action should include roles, rules, procedures and precedent. These four mechanisms act in the sense of coordination and control dealing with other dimensions of community organizations, such as collective works, mobilizing resources, communicating

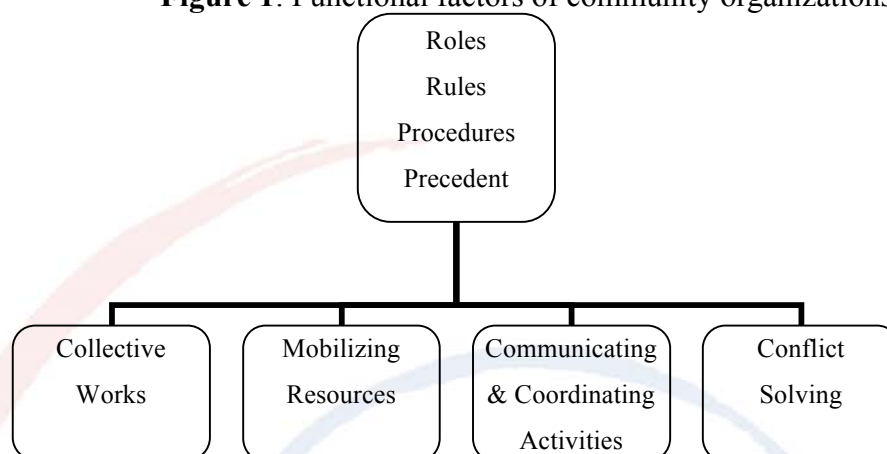
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<sup>2</sup> The term “effective community organizations” is used to suggest that rather than “efficiency”, “effectiveness” is favorable for developing countries in the context being discussed. Community organizations are suggested to be accompanied by social capital. When social capital is mentioned, by definition, it already implies efficiency.



and coordinating activities, and conflict resolution (Figure 1). It is important to have these four mechanisms in place when people are organized into groups, so that they can work together smoothly, predictably, fruitfully, and efficiently.

**Figure 1:** Functional factors of community organizations



Source: Adapted from Wijyaratna, 2004

The role of the authority may be done through a committee democratically elected by members of the community. It is important to realize that community organizations must be considered as a process in which the community is empowered to identify its common difficulties or objectives, to mobilize resources, and to develop and implement strategies in order to reach the objectives which the community collectively has established (McKenzie, Pinger, Kotecki, 2012). By this means, it is at least guaranteed that the needs of the people, particularly the poor in developing countries will be directly taken into account. Social trust plus measures arranged by community organizations will take the responsibility of coordination and control to suppress any malfeasance.

Concerning the methods of a community organization, Rengasamy (2009) has suggested that the methods used must be consistent with the participatory aim of the community organizations. That is the key to improving human well-being of people in developing countries. A set of examples is given in table 4, representing six methods under three main burdens of community organizations.

**Table 4: Methods of Community Organizations**

1. STUDY, 2. DIAGNOSIS, AND 3. TREATMENT	1. Methods of Planning and Related Activities	Common vision Goal-setting process Fact finding Analysis Evaluation Planning
	2. Methods of Group Decision Making and Co-operative Action	Problem-solving process Community meeting Committee practice Negotiation Vote
	3. Methods of Communication	Education Consultation Public relations Interview the media and ICT Written and oral communication
	4. Methods of promotion and social action	Incentives Promotion Legislative and non-legislative measures Direct action Exerting or invoking authoritative action
	5. Methods of financing and fundraising	Fund procurement by governmental agencies Fundraising by voluntary agencies Cooperatives and credit unions Joint budgeting
	6. Methods of administration	Administrative activities of agencies concerned with social planning Administration of common service or community organization Accountancy Recording

Source: Adapted from Rengasamy, 2009

To summarize, part 3.1 suggests that in order to make community organizations work effectively in benefiting people, there is a need for social capital. Thus, the main idea is that effective utilization of social capital must be counted as the most essential role of community organizations mentioned in this essay.

### 3.2 Social Capital

Social capital refers to those features of social organizations, such as norms, trust, attitudes, and networks that govern interactions among people and can contribute to improving economic and social development by facilitating efficiently coordinated actions (Putnam et al., 1993). Social capital matters because it enables members of the local community to act together more effectively in order to pursue common objectives or basic needs (Putnam, 1996). This is the reason why it is analogized as fuel that must come together with effective community organizations as mentioned above.

According to the literature, social capital is often viewed in terms of social trust. The term “capital” is valid because it is possible to invest in social relationships and, as a result, there are costs attached. Mutual trust created through long-term and multiple transactions will promote collaborative relationships within the local community. In addition, trust is able to suppress moral hazards between the contracting parties. If mutual trust between particular individuals were elevated to a moral code in society, large savings would be realized in transaction costs (Hayami, 2005).

Back to the context of developing countries, it is clear that local communities are mostly characterized by social ties rather than market ties. In this case, the concept of embeddedness contributed by Granovetter and Uzzi can be applied to understanding the context of developing countries. Granovetter (1985) proposed that economic transactions are embedded in social relations. Close relationships generate trust and, as a result, malfeasant actions in economic life decrease. Uzzi (1997) whose empirical research finding went further in reporting that trust acts as the primary governance structure at community level. The benefits of trust are that it can reduce calculative risk and monitoring costs. He added that at micro behavioral level, actors will follow heuristic and qualitative decision rules rather than calculative ones. Furthermore, actors will be satisfied to cultivate long-term cooperative ties rather than promote self-interest. Therefore, the concept of embeddedness would be a strong basis in support of community-based organizations to make the cooperation more effective and more fruitful in improving the livelihood of the poor in developing countries.

To summarize, social trust can be counted as capital because it can contribute significantly to improving the economic performance of a community. Most of the transactions at community level are often embedded in a network of relationships which seems to be natural in the countryside, implying ease and suitability to start from this advantage. Stepping further on a community-based approach can contribute positive and unique outcomes which might be sources of competitive advantage since each community has its own valuable features which are difficult to be either imitated or substituted.

### **3.3 The Determinants of Trust**

In a less trust-based society, opportunistic behaviour becomes the default, and people are generally inclined to invest in relationships that are based on reciprocity. That situation will make local communities less cooperative and participative in shared objectives of the local community. As a result, common resources and local public goods will get worse in terms of the quality of well-being. To avoid such situation, it is suggested in this essay that a trust-based society can come about by means of community organizations.

If trust can contribute to such good outcomes in relation to the quality of life, another question arises; what determines trust? It is well known that there are numerous factors that determine trust between people. Aspects of community homogeneity and heterogeneity also matter. Inclusively, Alesina and La Ferrara (2002) have identified five broad factors that influence how much people trust others, including:

- 1) Individual culture, traditions and religion
- 2) How long an individual has lived in a community with a stable composition
- 3) Recent personal history of misfortune
- 4) The perception of being part of a discriminated group

5) Several characteristics of the composition of one's community, including how much trust there is in the community

Lastly, let us get back to the matter of developing countries in Southeast Asia. It is quite unfortunate that there is still a lack of firm studies on community organizations and social capital in this region. Some countries adopted this concept adding it to their national economic and social development plans but they are far from being effective. This implies that the field is still open to being investigated.

#### **4. DISCUSSION OF FURTHER RESEARCH**

In this essay the problem of contingency and the facts about lagging human well-being of developing countries in Southeast Asia are detailed. The essay tries to take human well-being into account and to warn policy makers about divergent contexts of local communities which might be significantly different from assumed ideal contexts when creating development policy. It proposes that instead of relying on income distribution through price mechanisms, local communities need to be more self-reliant through effective community organizations. These organizations are necessary for gathering and facilitating active civic participation, which can empower the local community to deal with livelihood problems more directly and promptly.

The discussion is delineated step by step, first by underlining the contingency of rural development, second by explaining the causes through market and government failures, third by presenting an alternative mechanism to drive rural development, effective community organizations, finally arriving at the importance of social capital as the basis for development. However, the proposition on the importance of social capital presented in this essay is still in need of empirical investigation. Further study on social capital and community organizations in the context of Southeast Asian countries is therefore a useful field to invest in further research. For example the future research may investigate the role of social capital in human development in Southeast Asian countries; how to make local community organizations more effective; how generalized trust is formed; what are the conditions that determine trust between people in the community.

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