

# Strengthening Democracy and Market Economies through Social Capital Building in Developing Countries

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**Abstract:** In developing countries, it is imperative to actively pursue the enhancement of social capital in order to fortify both democratic systems and market economies. Even when other conditions remain constant, countries with high social capital have more efficient economies and better social welfare. Additionally, in the context of globalization, with the growth of network capitalism, it is evident that social capital is being formed in impoverished emerging nations.

## 1 Introduction

The expeditious establishment of social capital in developing nations is vital to fostering a more democratic and economically robust market. In modern cultures, social capital diminishes economic expenses and enhances the advantages of democracy (Fukuyama, 2001). Moreover, there is an increasing body of scholarly and empirical evidence supporting the notion that specific types of social capital can enhance both economic productivity and overall societal welfare (Wahyuni, 2018). Social capital can serve as a substitute for the state and markets in essential functional areas (Skidmore, 2001). Elgar et al. (2020)[8] asserts that robust nations necessitate strong social capital. This essay will examine three critical aspects of social capital. This essay will begin by presenting the definition and significance of social capital. Additionally, it will illustrate the positive impact of social capital on democratic performance and its role in promoting market efficiency. Furthermore, network capitalism and globalism will be explained, which are regarded as essential points for enhancing social capital. [9][23][20][24]

## 2 Definition and Significance of Social Capital

Social capital can be understood as a distinct form of resource that individuals possess. Social capital is mostly found within the framework of social connections and includes shared standards and social networks that promote collective social behavior, allowing individuals to work together effectively (Giorgas, 2007). Furthermore, social capital is often generated by elements such as religion, tradition, common history, and other influences that are outside

the control of the government (Fukuyama, 2001). Conventional cultural manifestations, such as religious factions, community organizations, and social collectives like tribes and clans, depend on established customs to foster collaboration (Fukuyama, 2001). The concept of “organization” is crucial, and addressing challenges related to collaboration is vital for both advancing social change and achieving economic prosperity (Harriss, 2002). Social capital, as per the World Bank’s definition, encompasses the institutions, connections, and norms within a community that influence the quantity and quality of social interactions (Skidmore, 2001). The strength of social capital differs among families, communities, and countries (Skidmore, 2001). Additionally, State institutions have the potential to exert a positive influence on the growth of social capital by combatting corruption, safeguarding property rights, establishing independent judicial systems, and improving government efficiency (Kashefi, 2015). [9][10][11][14][23]

## 3 The Connection between Social Capital and Civil Society

There is a strong correlation between Social Capital and Civil Society. Increased engagement in associations within a society correlates with higher levels of trust among individuals. Trust and participation are both integral components of social capital, as identified by Putnam (1995). Insufficient participation in public affairs and a lack of confidence in others are consequences of a feeble civil society, whereas a robust civil society fosters democracy (Carothers & Barndt, 1999). It ensures the protection of citizens’ interests, ensures the state’s responsibility, and encourages increased participation in civic and political activities (Carothers & Barndt, 1999).[3][20]

Civil society encompasses various designations. This phrase typically denotes the social processes and institutions that pertain to the individual and the government. Civil society, a realm of social connections,

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seems to exhibit a significant degree of hierarchical organization and division (Chandhoke, 2001). Political parties and sports leagues are among the various manifestations of civil society in society. Civil society is the tangible expression of the inherent human desire to engage in voluntary associations and interactions with other individuals (Skidmore, 2001). Conversely, social capital exists within the organizational aspects of social and economic activity. Alternatively, it refers to the potential for generating income through various forms of communal association (Skidmore, 2001). In conclusion, social capital has an impact on civil society's prosperity and well-being and supplies social groups and linkages vital for its survival and expansion.[4][23]

Once the connection between them is grasped, it is beneficial to know the roles and significance of civil society and social capital. In civil society, individuals frequently scrutinize the government and its monopoly on power. This is an ongoing process, rather than a fixed institution (Chandhoke, 2001). In order to combat anti-democratic behaviors, democratic movements must consistently expand the areas in which they can reject such behaviors. This requires them to remain watchful and discerning. Throughout this process, the civic society continuously renews itself, discovers new pursuits, identifies new adversaries, and forms new alliances. It cannot be constructed and subsequently abandoned to self-sustain as it is an ongoing procedure. This is important because the existence of a robust civil society is essential for the functioning of a democratic system (Chandhoke, 2001). An exemplification can elucidate the functioning of civil society. Civil society in Africa serves as a versatile term that encompasses several concepts. It can be employed to denote fresh objectives within the framework of regional and local social struggles for welfare, as well as global economic and technological progress (Lewis, 2002). [4][16]

#### **4 Social Capital Benefits Democracy and Economy**

Increased participation in associations within a society fosters trust among individuals, and trust and participation are integral elements of social capital (Meek et al., 2019). Robust social capital ensures that the concerns of citizens are protected, ensures that the government is held responsible, and encourages greater participation in civic and political activities (Carothers & Barndt, 1999). Developing countries can significantly improve their democratic performance through the proper utilization of social capital. An ample reservoir of social capital is likely to foster the development of a robust civil society, which is usually seen as a fundamental prerequisite for a contemporary liberal democracy (Fukuyama, 2001). Fukuyama (2001) argues that civil society serves as a safeguard against the excessive power of the state and functions to counterbalance it. In democratic settings, an organized civil society can exert influence on the government by closely scrutinizing its performance, compelling the

government to be more receptive to societal demands (Skidmore, 2001). One example suggests that certain institutions rely on social capital and are not easily replicable by other countries. Japans economic planning agency was not associated with corruption or rent-seeking, unlike other regions, due to cultural factors such as the high standing of bureaucrats, their professionalism, and their devotion to authority (Fukuyama, 2001).[3][9][18][23]

The presence of low levels of social capital has been extensively documented and is responsible for a multitude of political dysfunctions (Fukuyama, 2001). Within certain Latin American cultures, individuals exhibit uncivilized behavior in public settings and place their trust only in their immediate family and intimate acquaintances, which is perceived as a way of financially supporting one's family, leading to corruption (Fukuyama, 2001). Harriss (2002) argues that the conceptualizations of social capital deliberately overlook considerations of context and power dynamics. Thus, by emphasizing the need for "voluntary association" in civic involvement and removing the political nature of issues related to underdevelopment and fairness (Harriss, 2002). Therefore, social capital is beneficial for democracy in developing countries.[9][11]

The presence of social capital can positively impact the economic progress of developing nations. Social capital, which refers to the economic worth of social institutions and trust standards, plays a crucial role in growth alongside the state and the market (Skidmore, 2001). Bangladesh's Grameen Bank and the imitators of the microcredit movement exemplify how social capital may offset market failure by granting the impoverished access to credit that is typically unavailable through conventional commercial means (Skidmore, 2001). In addition, social capital reduces the expenses associated with formal methods of coordinating actions, such as contracts, norms, or hierarchies. In the absence of social capital, these methods would necessitate increased surveillance, bargaining, legal action, and implementation (Fukuyama, 2001). Fukuyama (2001) suggests that social capital facilitates the expedited and cost-effective interchange of intellectual property rights in high-tech research and development. What is more, social capital enhances efficiency in low-tech settings (Fukuyama, 2001). Additionally, in developing countries, state policymakers and administrators sometimes need a comprehensive understanding of the specific local circumstances necessary to develop appropriate economic interventions (Skidmore, 2001). Acquiring comprehensive local knowledge is only attainable through partnerships with organized social organizations (Skidmore, 2001). The key to rapid development is in the vital flow of information across various organizations and individuals within civil society (Skidmore, 2001). Skidmore (2001) states that recent studies indicate that countries with high levels of social capital tend to have more efficient economies and better social welfare, even when other factors are kept constant. [9][23]

## 5 Critical Points of Facilitating Social Capital

Because formerly distinct entities are increasingly building significant and long-lasting networks of interaction with one other and with other public and private partners, network capitalism may raise the relevance of social capital in economic development (Skidmore, 2001). Furthermore, Skidmore (2001) asserts that the establishment of connections marked by substantial trust and widespread cooperation is the crucial element for achieving success in business networking. These develop due to the anticipation of ongoing cooperation since the reduced risks of dishonesty and conflict are influenced by the imminent future and potential harm to one's reputation. Networking arrangements encounter significant obstacles, known as transaction costs, which diminish once a high level of trust has been developed over a prolonged period (Skidmore, 2001).[23]

Additionally, religion and globalization have the potential to enhance social capital alongside the efforts made by state and government authorities (Fukuyama, 2001). The rapid process of globalization and the widespread adoption of market liberalizing reforms in countries of the Global South have resulted in the growing impact of non-state actors on the formulation and implementation of development policies (Banks et al., 2015)[2]. Additionally, Fukuyama (2001) argues that globalization encompasses not only economic aspects, such as money, but also the dissemination of ideas and cultures. Globalization possesses the capacity to erode localized cultures and traditions, while also bringing new thoughts, behaviors, and pursuits. Globalization, according to Fukuyama (2001), serves as a catalyst for modernity by creating a divide between traditional and social groups. Furthermore, the involvement of non-state actors in the development of developing nations has increased due to globalization and market reforms (Hurrell & Woods, 2018). Additionally, the demise of welfare states has given rise to emerging powers such as Brazil, India, China, Turkey, South Africa, Indonesia, and others (Hopkins, 2020). Additionally, there has been an emergence of influential philanthropists, individual contributors, and new elements and collaborations for development (Kumar & Brooks, 2021). Externally, globalization has diminished the independence of nation-states, while the processes of democratization and the expansion of civil society have compelled developing countries to reconsider their domestic responsibilities (Skidmore, 2001).[9][12][13][15][23]

## 6 Strategies for Enhancing Social Capital

Building social capital necessitates deliberate endeavors and tactics. This part examines fundamental strategies to promote the expansion of social capital in communities and societies.

### 6.1 Initiatives for Fostering Community Involvement

Creating community engagement initiatives that promote active involvement and cooperation can greatly enhance the development of social capital (Apaliyah et al., 2012). Neighborhood events, volunteer projects, and community forums provide as avenues for individuals to establish connections and foster trust (Apaliyah et al., 2012).[1]

### 6.2 Enhancing Social Networks

Facilitating the growth of varied and all-encompassing social networks is crucial. Fostering contacts among individuals with diverse backgrounds, occupations, and age cohorts can expand viewpoints and enrich the collective social networks (Moody & Paxton, 2009). [19]

### 6.3 Implementing Campaigns for Awareness and Education

Adopting educational initiatives that emphasize the significance of social capital and its beneficial effects on both personal and communal welfare can cultivate a societal environment that places a premium on interpersonal relationships (Comer, 2015). [5]

### 6.4 Investing for Social Infrastructure

There is a clear and positive correlation between social capital and the amount of money spent by local governments on infrastructure projects that contribute to the development of social capital (Roskruege, 2012, p. 20). Allocating resources towards social infrastructure, such as the development of community centers, public spaces, and internet platforms, has the potential to foster situations that are favorable for social interactions. These venues function as central points for individuals to convene, cooperate, and cultivate enduring relationships.[22]

### 6.5 Building Trust through Transparency

Transparency promotion within institutions and organizations cultivates trust, which is an indispensable component of social capital. In social capital, trust is also the primary reason for accomplishing an objective (Putro et al., 2022). Particularly in cooperative endeavors, establishing relationships between individuals is predicated on trust (Putro et al., 2022). Furthermore, being accustomed to integrity, impartiality, reciprocal regard, dedication, and regard can foster stronger social connections, which is how trust is established (Putro et al., 2022, p. 416). Trust will gradually establish itself through continuous engagements (Putro et al., 2022). Promoting buy-in, facilitating open communication, and fostering an environment where team members feel comfortable expressing their views are all outcomes of a leader's transparency (Putro et al., 2022). Additionally, developing a practice of transparency or openness can enhance accountability, fortify responsibility, and ultimately result in more judicious decision-making (Putro et al., 2022).[21]

## 6.6 Leveraging Technology for Social Connectivity

Utilizing technology to enhance social connectivity is crucial in the digital world (Corbett & Spinello, 2020). In the evolving digital realm of the Web 2.0 era, where social software tools such as blogs, wikis, and podcasts offer immediate contact, prospects of involvement, and the establishment of communities (McLoughlin & Lee, 2008). Furthermore, Online platforms and social media can be used to link individuals who have similar interests, thereby creating virtual communities that enhance in-person relationships.[6][17]

## 6.7 Government Policies and Incentives

Governments have the ability to significantly contribute to the improvement of social capital by enacting policies and providing incentives that promote the development of community-building projects (Daubon & Saunders, 2002). This encompasses several actions such as allocating financial resources for social activities, devising strategies to foster volunteer engagement, and formulating policies to advance social inclusion. [7]

## 7 Conclusion

This essay explains the definition of social capital, the connection between the social capital and civil society, the benefits of social capital on democracy and economy in developing countries, the critical points of developing social capital, and strategies for enhancing social capital. In conclusion, Robust social capital holds the government accountable and stimulates civic and political participation. Additionally, social capital reduces expenses and enhances efficiency in terms of the economy. What's more, network capitalism may help the development of social capital in economic development. Additionally, globalization has the potential to enhance social capital, increase the involvement of non-state actors in the development of developing countries and force developing countries to reconsider their domestic responsibilities. Last, there are seven fundamental strategies for enhancing social capital have been introduced and explained, initiatives for fostering community involvement, enhancing social networks, implementing campaigns for awareness and education, investing for social Infrastructure, building trust through transparency, leveraging technology for social connectivity, and government should have more relevant policies and incentives.

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