

EMERGING ECONOMIES, DIMINISHING DEMOCRACIES

The relationship between democracy and economic growth has been at the center of political science research in the last 50 years. Empirical studies show mixed inconclusive evidence with respect to that relationship. For those authors who defend a positive connection, workers and investors perform better under democratic regimes because the separation of powers provides additional guarantees to property rights, there is more certainty about future investment flows and because democracies normally maintain higher education and health standards that are key for additional economic growth. On the other hand, those who think that democracies are not so positive for economic growth affirm that pluralistic regimes are often subject to short-term electoral interests, are heavily influenced by the lobbies that finance political campaigns and are excessively dependent on mass media with high electoral impact. This short-term bias explains why consumption is higher than investment and why the government tends to have suboptimal economic behavior in democratic regimes.

The latest study by Doucouliagos and Ulubasoglu (2007)¹ performs a meta-analysis of the last 81 published articles dealing with the relationship between democracy and

¹ Deakin University School of Accounting, *Economics and Finance Working Paper Series*, Number 2006/04.

economic growth and their main conclusions are as follows: democracies are beneficial for long-term economic growth because they are associated with higher human capital accumulation (universal education). They also tend to have lower inflation rates, less political instability and higher degrees of economic freedom. On the other hand, democracies normally have bigger governments with higher public spending, and are less open to international trade. The purpose of this article is, however, to explore the opposite relationship. That is, the question would be instead whether economic growth strengthens or weakens democratic regimes, in light of the recent experience of new emerging market economies (the so-called BRICS).

The BRICS (Brazil, Russia, India, China and South Africa) have grown at much higher rates than the Western economies in the last two decades. With annual growth rates close to 10% and 1.3 billion people, China will surpass the US as the world's economic leader by 2016, according to recent IMF estimates. India will also take over Japan in the third position of the ranking, and Brazil will soon pass the UK and France to reach to the 7th position in the world's economic classification. According to the recent report by Price Waterhouse Coopers entitled *The World in 2050*², the first 20 positions of the ranking by GDP in purchasing power parity in 2050 will be distributed as follows: China,

² http://www.pwc.com/en_GX/gx/world-2050/pdf/world-in-2050-jan-2011.pdf

India, US, Brazil, Japan, Russia, Mexico, Indonesia, Germany, United Kingdom, France, Turkey, Nigeria, Vietnam, Italy, Canada, South Korea, Spain, Saudi Arabia and Argentina. In conclusion, in almost 40 years there will be no European country in the G7 and the first world power will be a country which today is a dictatorship.

In fact, we cannot foresee the political regime of China in 2050, but there are no reasons to think that economic growth will imply further steps towards democracy. In fact, it is true that China's major challenge is to expand its growing prosperity to the rural areas that still live under poverty, and to incorporate millions of people to the urban middle class in order to rebalance the sources of economic growth from exports to domestic consumption. It is possible that as the Chinese people get wealthier the demands for more liberties and democracy increase as well. But it is also possible otherwise, as long as the communist regime keeps successfully exchanging any democratic demand for additional increases in material well-being.

The situation with respect to other emerging countries is not much clearer. In those countries which were democratic, economic growth has not improved the quality of democracy. And in those countries that were under totalitarian regimes, economic growth has not produced a regime change towards democracy. The democratic regimes of Brazil, India and South Africa have all been heavily impacted by

corruption scandals, most of them associated to economic development. Russia has stopped being a democracy and has turned instead into a hybrid regime, while China has only accepted to talk about human rights when it received enough guarantees that this could end in a positive consideration as a free-market economies and full membership in the World Trade Organization.

Economic growth in Brazil has expanded the middle class by 58 million people and has lifted out of extreme poverty an additional 25 million people in the last 10 years. In parallel, corruption levels have weakened considerably the political system and was about to bring down the government of President Lula at the beginning of his second mandate. Today, President Rouseff is fighting a tough battle against any sign of government corruption, even at the cost of getting rid of any close collaborators. In fact, two ministers of her cabinet had to resign during the summer. Nevertheless, the problem goes well beyond high political figures since corruption has now reached middle-rank officials and the judiciary system. This is being denounced by anti-corruption activists in a series of demonstrations that have taken place in the major cities of the country in the past weeks.

In India, the latest public news has also forced the government to show a public commitment against corruption, but the magnitude of the problem seems enormous. The most

important scandals have to do with the disappearance of billions of dollars from the Commonwealth Games, the mismanagement of the system of subsidies to poor people in the region of Uttar Pradesh and the missing revenues from the mobile telephone licenses. Recently, the government has arrested the Minister that gave the licenses and the police have interrogated the Director of the Commonwealth Games. Nevertheless, middle-range corruption keeps expanding throughout the country, because local authorities tend to use a decentralized system of public spending to build clientelistic networks around the new public works that they can now afford thanks to the recent economic development.

Corruption cases in South Africa have also grown in parallel to economic growth. Sometimes these scandals have been linked to the transfer of economic power under the *Black Empowerment Act*, which was heavily distorted in its application. The bribes around the last FIFA World Cup, the scandal of a former minister of defense who was selling arms and the doubts surrounding the concessions of the new carbon and nuclear plants of Johannesburg explain why South Africa is constantly decreasing in all rankings of democratic quality and corruption.

The situation in Russia is even worse. Not only mafias, economic and political interests are all intertwined, but also the ideological differences between political parties

have disappeared. The culture of a single party that perpetuates itself through non competitive elections now dominates political life. In the last eleven years the political game field of Russia has shrunk and the number of players has decreased because United Russia, the party of Medvedev and Putin (who alternate each other in the presidency) does not accept political competence. As a consequence, there are more administrative barriers to create and maintain political parties, the minimum threshold to obtain representation in the Duma has increased to 7%, and the electoral process is under growing control with no minimum number of votes for valid elections and the exclusion of international observers.

In fact, Russia is the first country that the recent literature on Hybrid Regimes mentions as a paradigmatic case study. According to Diamond (2002)³, these are regimes where elections take place but where there is a hegemonic party and where electoral competence is limited (either because the major party controls the electoral process and/or because it controls the media). These are regimes where the opposition does not have real capacity to beat the strongest party at the ballot box. In addition, basic democratic rights like freedom of speech and freedom of association are severely damaged in these hybrid states.

³ Larry Diamond (2002): "Elections without Democracy: Thinking about Hybrid Regimes. *Journal of Democracy*, Vol 13(2).

Together with Russia, there are other countries mentioned in this group, such as Venezuela, Ukraine, Nigeria, Indonesia and Turkey.

In conclusion, it seems that economic growth is not improving the democratic credentials of new emerging economic powers. Where democracies were already in place, corruption is severely damaging those countries' democratic performance (like in Brazil, India or South Africa). And where democracy did not exist, elections have just served to consolidate a hegemonic party (like in Russia), or they have not even taken place (like in China).

In any case, it looks like in the coming years we will have to deal with economic powers that do not have perfect democracies. This will be an additional challenge to future international relations and to any further steps towards global governance, since any such system will have to accommodate different actors with different qualities of democracy at its core. There is no previous historical experience of such a thing.

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