Development and Democracy in Asia

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1. Introduction

Does economic development promote democracy? What is the impact of democratic institutions on economic growth and wealth? Legions of scholars and policymakers alike have sought the answer to these questions, but the debate remains inconclusive (Sunde and Jung 2014; Riaz Pozuelo, Slipowitz and Vuletin 2016; Acemoglu et al. 2019). There is of course a positive correlation between development (approximated as per capita income) and democracy worldwide as most affluent countries have democratic governments; but whether this correlation implies a causal relationship in a certain direction, or if the relationship works dynamically by way of reinforcing each other, and what the causal mechanisms are remains contested. Moreover the literature has far from settled on what aspect of economic development is the “key” to democracy and if income is just a proxy for some other relevant trait that is really driving democratization, such as education, urbanization, inequality, particular values or new patterns of social interaction (Welzel 2013; Treisman 2015; Acemoglu and Robinson 2006, 2018; Boix 2003, 2011). Older studies that established a correlation using cross-sectional data and interpreted it as a causal relationship in a certain direction suffered from problems of reverse causality and omitted variables (Lipset 1959; Cutright and Wiley 1969; Bollen and Jackman 1985; Burkhart and Lewis-Beck 1994). Recent research uses panel data to identify the effects of interest via temporal variation and to separate them from time-invariant country-specific intervening factors (e.g. Acemoglu et al. 2019; Acemoglu et al. 2008; Boix 2011). In addition, instrument variable estimators are increasingly used to avoid problems of endogeneity (cf. Acemoglu, Johnson and Robinson 2001). Still, empirical results depend very much on scholars' choice of model specifications and their empirical strategies (Boix 2018).

The “Asia-Pacific” region (comprising South, Southeast and Northeast Asia) is of particular importance for the discussion about the development-democracy nexus. The region has been home of some of the most impressive success stories of economic growth and human development in the post-World War II period. In Japan, Hong Kong, Taiwan, South Korea, Singapore, Malaysia, Thailand, and Indonesia, real per capita GDP rose twice as fast as in any other regional grouping between 1965 and 1990 (Maddison 1991; see also Bolt et al. 2018). In the 1980s and 1990s, China and India also emerged as major forces in the global economy and GDP per capita has increased a remarkable sevenfold in China, and has more than doubled

in India (Bosworth and Collins 2008). Even more impressive is the dramatic reduction in poverty in these countries, and the simultaneous increase in literacy, life expectancy and the size of the new middle classes (Asian Development Bank 2010).

In recent years, Asia-Pacific has also seen its share of transitions from authoritarian rule to democratic governance (Croissant 2004; Hellmann and Croissant forthcoming). The so-called third wave of democratization reached the shores of the region in the mid-1980s. Although consolidated democracy is still the exception, the number of democracies tripled from three in 1980 to nine in 2005, and eleven in 2017 (see Figure 1).¹

FIGURE 1: NUMBER OF DEMOCRACIES AND AUTOCRACIES IN ASIA, 1900-2017

Source: Data based by Coppedge et al. (2018a) and Lührmann et al. (2018).

Yet, a closer examination of the democratic and economic experiences of Asia-Pacific reveals that many countries seem to defy simplistic assumptions regarding the relationship between democracy and development. On the one hand, poor and relatively underdeveloped countries such as India, Bangladesh, Timor-Leste, and the Philippines sustained electoral

¹ Bhutan, India, Indonesia, Japan, Mongolia, Nepal, Philippines, South Korea, Sri Lanka, Taiwan and Timor-Leste. Data according to the Varieties of Democracy (V-Dem) Project.

democracy although they did not meet the socio-economic requisites of democracy. On the other hand, authoritarian governments in affluent countries such as Singapore, Brunei and Malaysia withered the challenge of democratization. Despite rapidly rising levels of socio-economic modernization, other countries, such as China and Vietnam do not exhibit any trend towards more democratic political institutions.

At the same time, the region seems to contradict the widely held view that “democracy does a better job in raising living standards in poor countries than does authoritarian government” (Halperin, Siegle, and Weinstein 2010: 1). By global standards, democracies outperform authoritarian regimes on almost every measure of development (Przeworski et al. 2000) but in Asia-Pacific, many, though not all, authoritarian regimes demonstrated a strong capacity to produce growth-generating public goods, economic growth and human development. A glance at the average growth rates in autocracies and democracies over the time span 1960–2010 shows that globally, democracies do indeed exhibit higher growth rates than autocracies, although the gap is less substantial than is often assumed. More importantly for the theme of this chapter, however, is the observation that democracies do not outperform autocracies in GDP per capita growth but, depending on the time period, economic growth rates in autocracies are higher than in democracies. Even if one accepts that the ‘average’ autocracy lags behind the ‘average’ democracy on economic development, Table 1 shows that Asia-Pacific dictatorships tell a different story, even if one takes into account differences between time periods and sub-regions.²

TABLE 1: GDP PER CAPITA GROWTH RATES IN AUTOCRACIES AND DEMOCRACIES IN ASIA-PACIFIC

	Regime type	1960-2010	1960-1989	1990-2010
World	Autocracies	2.31%	2.02%	2.84%
	Democracies	2.82%	2.88%	2.78%
Asia Pacific	Autocracies	3.54%	3.11%	4.37%
	Democracies	3.54%	2.83%	3.91%

Source: Data based by Coppedge et al. (2018a), Lührmann et al. (2018), and Maddison Project Database by Bolt et al. (2018).

In fact, “all the recent examples of successful authoritarian modernisation cluster in East Asia rather than other parts of the world”, as Francis Fukuyama (2013: 5) notes. In contrast to highly predatory autocracies in the Middle East, Latin America and Sub-Sahara Africa, non-

² The average GDP p.c. growth rate for South Asia is 2.53% for the period 1960 to 2010, but 3.92% for Southeast Asia and 5.43% for Northeast Asia.

democracies in Asia-Pacific often provide a relatively high level of “rule of law for elites” (North, Wallis and Weingast 2009) and protection of property rights—two of the most important ingredients for economic development in the long-run (Haggard, MacIntyre, and Tiede 2008; Acemoglu and Robinson 2012).

Figure 2 plots the relationship between the changes in GDP per capita (log) from 1960 to 2015 and the changes in the Varieties of Democracy’s “Electoral Democracy Index” (EDI) over the same period. It provides weak evidence that democratization and economic development is generally linked in Asia. Some, like Taiwan, Mongolia, Indonesia and South Korea experienced a major increase in democracy and income, whereas others, such as India, Myanmar, and Sri Lanka demonstrate a considerable increase in economic development but somewhat decreasing levels of electoral democracy. Most prominently, countries such as China, Vietnam, Malaysia and Thailand saw a very substantial increase in income, but had not made significant progress in democracy in this period.

FIGURE 2: CHANGES IN LEVEL OF INCOME (LOG GDP PER CAPITA) AND LEVEL OF ELECTORAL DEMOCRACY, 1960-2015

Notes: Data on electoral democracy comes from Coppedge et al. 2018a. Data on GDP per capita comes from Maddison Project Database (Bolt et al. 2018).

Building on this quick overview, the remainder of this chapter examines the possible causal relationship between form of rule and economic development for 20 countries in South Asia, Southeast Asia and Northeast Asia. We approach the topic in four steps. Section 2 discusses the extant literature on the development-democracy nexus. Section 3 then presents our key concepts, data and method. In Section 4, we test the relationship between income and democracy in Asia-Pacific, as well as potential impacts of rule of law and state capacity. Section 5 presents our conclusions.

2. Literature Review: A Development-Democracy Nexus?

From economic development to democracy?

The notion that democracy is a function of economic development and socio-economic modernization has been one of the most dominant theoretical frameworks in democratization studies. Perhaps the most extensively tested claim in political science linking the political system to (economic) development is Seymour Martin Lipset's proposition that modernization operates in favor of democracy. Concretely, Lipset claimed that "the more well-to-do a nation, the greater the chances that it will sustain democracy" (1959: 75). Lipset's understanding of modernization is broader than per capita income but because of its wide coverage and intrinsic comparability, the indicator has been widely used as a proxy for development in empirical studies on democratization.

The two main distinctions in this debate are the following: First, does economic development affect the probability for a transition to democracy ("endogenous theory" of democratization by modernization), the likelihood that democracy will survive ("exogenous theory") or both (Przeworski et al. 2000; Boix and Stokes 2003)? The second key distinction is between "simple" and "conditional" models of modernization theory (Treisman 2018). According to the simple modernization argument, economic development produces an instantaneous and proportional on democracy that is the same everywhere around the globe. In contrast, the conditional thesis argues that modernization operates in favor of democracy "only in countries that have a certain kind of economic development or when certain political or international conditions hold" (Munck 2018: 40). The democracy-effect is (a) probabilistic rather than deterministic; (b) is not instantaneous but takes place in the medium or long run; and (c) is active only by the occurrence of specific proximate causes or trigger events such as economic crisis and leader turnover (Kennedy 2010; Treisman 2015; Boix 2018).

Studies that appeared until the early 1990s mainly tested the endogenous and simplistic understanding of modernization theory. Building on widely supportive findings in these earlier

studies, Burkhart and Lewis-Beck (1994) concluded that the (positive) economic effect of development on democracy would be one of the few iron laws in social sciences. However, since the late-1990s, numerous researchers have again taken up Lipset's thesis (Munck 2018: 40). For example, Przeworski et al. (2000) contend that there is no clear causal link between development and the probability of transition to democracy ("endogenous theory") but that economic development helps democracies, once established, to survive and mature ("exogenous democratization"). Acemoglu and coauthors claim that income and democracy are unrelated and that there "is no tendency for countries to become more democratic as they become more 'modernized' whether in terms of higher levels of income per-capita [...] or education" (Acemoglu and Robinson 2018: 26; Acemoglu et al. 2005, 2008). Their conclusion was that the evidence in favor of causal effects of developmental status in terms of per capita income on the probability of democratic structures was mainly driven by unobserved heterogeneity and variation between countries, i.e. historical factors, and therefore inconsistent. Once variation is used for identification within countries, no direct causal effects can be demonstrated (Acemoglu and Robinson 2018).

These refusals of the "endogenous democratization" approach have been criticized as resting on dubious premises and erroneous interpretation of their own results (Boix and Stokes 2003; Boix 2003, 2018; Welzel and Inglehart 2005; Welzel 2013). However, against the background of these results, scholars have developed more refined versions of modernization theory which focus on the conditions and events which may "trigger" the causal effect of development on transitions to democracy (Boix 2011; Treisman 2015); indirect mechanisms through which economic development affects democratization (education, inequality, globalization, or value change) (Boix 2003; Welzel and Inglehart 2005; Welzel 2013, 2018; Kim and Heo 2018; Barro 1996; Murtin and Wacziarg 2014); and the relationship between economic development and only the electoral component of democracy (Knutsen et al. 2018: 11). From these studies it can be concluded that the substantial evidence favors the exogenous democratization thesis more than the endogenous thesis and it is stronger for the conditional thesis than for the simple modernization thesis. Development does not immunize democracy but low levels of development are a key barrier to the consolidation of democratic rule, whereas wealthy democracies are unlikely to collapse. Modernization in general and economic development in particular do not have the same impact on democracy around the world and different time periods, but the effect is conditional on the national and international context.

From democracy to economic development?

There has been also extensive research on the question of whether democracy or autocracy is better for economic growth (Wu 2004; Sunde 2006; Acemoglu et al. 2019). Competing

theoretical models claim that democracy facilitates development ("win-win" hypothesis), is a hindrance to development ("trade-off" hypothesis), or is bearing no independent relationship to development outcomes. However, the evidence from quantitative, cross-national studies yields few robust conclusions with respect to the theoretical models (Sirowy and Inkles 1990; Acemoglu et al. 2008; Sunde and Jung 2014). The findings, however, remain mixed.

The "trade-off" argument states that democratization and economic development, at least at an early stage of economic development, are in conflict. From this point of view, authoritarian regimes are better able to promote development-inducing policies than democracies because authoritarian "[i]nstitutions can overcome ... collective action dilemmas by restraining the self-interested behaviour of groups through sanctions; collective-action problems can be resolved by command. Since authoritarian political arrangements give political elites autonomy from distributional pressures, they increase the government's ability to extract resources, provide public goods, and impose the short-term costs associated with efficient economic adjustment" (Haggard 1990: 262). From this theoretical point of view, it thus seems easier for autocratic regimes to implement unpopular yet growth-friendly policies because they are less dependent on majority preferences and support from interest groups than are governments in democracies. In the 1990s, political leaders especially in Singapore and Malaysia forcefully argued that authoritarian governments or "Asian style democracies" were more able to bring development to underdeveloped countries and that the introduction of democratic institutions would hurt (economic) development (Thompson 2001). In the 2010s, the seemingly irresistible rise of China's economy seems to suggest that authoritarian growth models such as the "China Model" could offer political leaders in the Global South attractive and applicable alternatives of political and economic development (Ambrosio 2012).

In contrast, scholars who content that political democracy is positively associated, at least in the long term, with stronger economic performance argue that it is precisely because democratic governments need broad support to survive politically, they disproportionately invest state resources in public goods that benefit large segments of society (Olson 1993). While autocrats may be in a better position to resolve collective-action problems by command, they have little incentive to do so in favor of promoting development-friendly policies: Autocrats generally depend on satisfying the needs of a relatively small segment of society, which allows them to exclude most citizens from political participation and ignore their needs (Bueno de Mesquita et al. 2003). Democratic institutions, on the other hand, incentivize governments in a way that promotes more growth-enhancing policies (Gerring et al. 2005; Acemoglu et al. 2019; North, Wallis and Weingast 2009). Although some authoritarian regimes were indeed capable of launching and advancing ambitious developmental projects (Sáez and Gallagher 2009), successful development dictatorships are the exception, or as Dani Rodrik

(2010) points out: "For every Lee Kuan Yew of Singapore, there are many like Mobutu Sese Seko of the Congo." Moreover, growth development under authoritarian, "extractive political institutions" such as in China, can be impressive but "will not translate into sustained growth" and is not viable in the long run (Acemoglu and Robinson 2012: 445).

The questions remains, however, which institutions exactly matter for viable economic development in the long run. For example, Acemoglu et al. (2005) see the differences in economic institutions as the fundamental cause of difference in economic development. According to their research, the economic potential depends in particular on how an economy is organized, i.e. on its economic institutions. Overall, the empirical studies on the growth effects of democracy show that growth impulses come mainly from improved conditions with regard to education, inequality and, above all, inclusive economic institutions. It is therefore critical to distinguish between narrow and broad conceptions of democracy. While broad conceptions treat inclusive and effective economic institutions as if they were characteristics of political democracy, narrow conceptions limit democracy to the electoral sphere, whereas components such as "rule of law" and security of property rights are understood as synonym for "inclusive economic institutions" (Acemoglu and Robinson 2012). According to Acemoglu and Robinson, "inclusive economic institutions... are those that allow and encourage participation by the great mass of people in economic activities that make the best use of their talents and skills" (2012: 144). They argue that "to be inclusive, economic institutions must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract" (ibid.). The presence of inclusive economic institutions creates incentives for citizens to achieve success in the long term. But to achieve long-term, stabilized economic growth, countries need to develop institutions that enable individuals to participate in the economic and political systems of their country.

3. Conceptualization, Data and Method

The investigation of the empirical link between democracy on the one hand and economic development on the other requires a definition of the concepts and corresponding empirical measures. There are very different ideas in political science about exactly what democracy or development is. For the purpose of this chapter, it is sufficient to acknowledge that despite the nature of democracy as an "essentially contested concept" (Collier, Hidalgo and Maciuceanu 2006), actual empirical research on democratization relies on a procedural understanding of democracy (Munck 2016). Still, the debate is whether a minimal and essentially electoral understanding of democracy is sufficient or if democracy should also

include the presence of more substantial elements, such as the rule of law and constitutionalism (Croissant and Merkel 2019).

Building on the previous discussion, we adopt a narrow understanding of democracy as "electoral democracy". In our statistical models, which estimate the effect of development on democracy, the dependent variable "electoral democracy" is based on V-Dem data. It measures the degree to which the "ideal of electoral democracy in its fullest sense (is) achieved" (Coppedge et al. 2018b: 38). Following the example of Acemoglu et al., the term "rule of law" is understood in the following as a synonym for "economic institutions" and the granting of property rights. We employ the rule of law measure provided by the V-Dem project as a control variable; it measures "to what extent are laws transparently, independently, predictably, impartially, and equally enforced, and to what extent do actions of government officials comply with the law" (Coppedge et al. 2018b: 232). Additional control variables are "regime type" (closed autocracy, electoral autocracy, electoral democracy, and liberal democracy) based on Lührmann et al. (2018), and "state capacity" (Hanson and Sigman 2013). The inclusion of the state capacity measure developed by Jon Hanson and Rachel Sigman takes into account the fact that state capacity is a "fundamental ingredient for effective governance" (Savoia and Sen 2015: 1). Much of the empirical evidence sustaining the thesis that authoritarian regimes are in general more effective than democratic ones in promoting economic development comes from the so-called authoritarian developmental states in East Asia (Korea, Taiwan, Singapore, and Meiji Japan). As some analysis have suggested, the secret of rapid economic growth in many Asian autocracies lies not in the authoritarian nature of the political regime per se, but in the superior ability of state institutions to implement official goals and policies (Woo-Cummings 1999).

Similar to democracy, there is no generally accepted definition of the concept of 'development' in economics and social sciences. We agree that economic growth is an engine of development and social progress, but not its purpose, and development is a multidimensional concept (see Chapter Three in this Handbook). The empirical literature that is relevant for this chapter, has long been equated development with economic growth. Since the 1990s, however, there has been a debate about humanizing the concept of development. The human development approach emerged in the late 1980s, under the influence of the thinking and work of economist Amartya Sen, who conceived an alternative way to development as "the process of expanding the real freedoms that people enjoy", a focus that contrasts with narrower views of development as economic growth (Sen 1999: 19; see also Chapter Six in this Handbook).

Nonetheless, this chapter follows conventions in political science and use a measure of income level: GDP per capita adjusted for power purchase parities. The variable is far from

perfect but per capita income has been widely used as a proxy for development because of its wide coverage and intrinsic comparability. Our data is from the Maddison Project Database, version 2018, and GDP p.c. is transformed by the natural logarithm to account for a non-linearity relationship between democracy and income. The control variable GDP growth measures the annual GDP growth in a country year (Bolt et al. 2018). In addition, to examine whether other country-specific factors might be causing both GDP per capita and democracy, we include country fixed effects that absorb any time-invariant characteristics of countries that simultaneously impact economic development and democracy (Acemoglu and Robinson 2018, 26). The fixed effects regressions include time fixed effects to account for time-specific factors that could affect the relationship between democracy and development. Those time fixed effects are excluded for the two-state least squares regressions, because our analysis does not converge with the additional year dummies. This type of fixed effects strategy is far from perfect. It controls only for time-invariant country characteristics potentially impacting modernization and democracy. If instead there are time-varying factors, such as a change in the political power of different social groups that can shape both political development paths and economic outcomes, fixed effects strategies will not estimate the relevant causal effects. Building on Acemoglu et al. (2008) we therefore use a variety of instrumental variables (IV) strategies to address this problem.

4. A Development-Democracy Nexus in Asia-Pacific?

The following section presents our findings from the regression analyses. We first test if income has a positive influence on democratization. Second, we examine if introduction or existence of democracy have a positive influence on economic development in Asia. The main sample consists of about 1,600 country year observations on up to twenty countries in Asia-Pacific in the period 1800 to 2016. The unit of analysis is the country-year.

From Development to Democracy?

To test the relationship between income and democracy we employ an ordinary least squares (OLS) estimator with Panel Correction Standard Errors, country and year fixed effects, a lagged dependent variable (LDV) and auto-correlated error term. Models 1, 4 and 7 are the baseline models estimating the effect of GDP per capita on the EDI and controlling for the LDV. Models 2, 5, and 8 add the Rule of Law Index as a control variable, while Models 3, 6, and 9 control for rule of law and GDP growth. To allow for the possibility of simultaneous causation between income and democracy, we measured electoral democracy, GDP per capita, rule of law, and GDP growth with five-year, ten-year and twenty-year lags. This is also consistent with Boix (2011) and Treisman (2015) who present evidence that income mainly matters in the long

run. The following Figure 3 reports the results for the 5-year lag models (1-3), the 10-year lag models (4-6), and the 20-year lag models (7-9).

FIGURE 3: TIME SERIES CROSS SECTION REGRESSION ANALYSIS OF THE EFFECT OF (LOG) GDP PER CAPITA ON ELECTORAL DEMOCRACY

Notes: The dots represent estimated effects of the independent variables on electoral democracy. The whiskers show the 95% confidence intervals of these estimates. All models are based on 20 countries and between 1,756 and 1,393 country-year observations

(unbalanced panel) and uses PCSE. Table A2 in the Online Supplementary Material shows the regression results in table format.

We find that GDP per capita has a positive effect on electoral democracy in the 5-year and 20-year lag models. However, in the 10-year lag models, the point estimate between GDP per capita and electoral democracy remains positive, while the effect ranging from a small negative association to a weak positive association, when controlling for rule of law.³ Figure 3 shows that rule of law is highly correlated with electoral democracy in the medium run, but this effect decreases in the long run. To interpret the coefficient more intuitively, a 10% increase in log GDP per capita should lead to an increase of 0.003 in the EDI five years later (see Model 3). A 10% increase in the log GDP per capita should result in a 0.03 increase in the EDI after ten years. When taking into account the mean log GDP per capita increases in our sample of Asian countries from 7.04 in 1960 to 9.09 in 2015, the EDI should increase by around 0.06. From a substantive point of view, it seems fair to conclude that the effect of per capita income on electoral democracy is quite limited.⁴

Next, we use infant mortality rate⁵ as an instrument variable (IV) for GDP per capita to account for endogeneity between democracy and economic development. As Boix (2011: 818) explains, instruments for endogenous variables must meet two central requirements of instrumental variable estimation: the instrument should be uncorrelated with the dependent variable but it should be well correlated with the instrumented (endogenous) variable. To test for these conditions, we use the Stock-Yogo-Test to check the statistical strength of the instrument variable (Stock and Yogo 2005). The test shows that infant mortality rate is a strong instrument for GDP per capita and only weakly correlated with the dependent variable. As shown in Figure 4, using this IV approach allows us to demonstrate that the coefficient for the instrumented variable GDP per capita is positive for electoral democracy, but the effect is very weak and ranging from negative to positive associations. In the first stage, the infant mortality rate is correlated with GDP per capita – as we expected – and a decrease in infant mortality is correlated with an increase in GDP per capita.

FIGURE 4: TWO STAGE REGRESSION ANALYSIS: IV ESTIMATES OF THE EFFECT OF (LOG) GDP PER CAPITA ON ELECTORAL DEMOCRACY (SECOND STAGE PLOTTED)

³ Building on the discussion in the Special Issue of the American Statistician (Wasserstein, Schirm, and Lazar 2019), we do not report and interpret p-values here.

⁴ With one-year lag (not shown here), the GDP p.c. has no substantial effect on democracy which is consistent with the extant literature (Boix 2011, 2018).

⁵ The variable infant mortality is based on World Bank Data.

Notes: The dots represent estimated effects of the independent variables on the EDI. The whiskers show the 95% confidence intervals of these estimates. All models are based 2SLS regression analysis using infant mortality rate as an instrument variable for GDP per capita. Models estimate the effects for 19 countries and between 917 and 623 country-year observations (unbalanced panel). Table A3 in the Online Supplementary Material reports the results in table format and shows the first stage results.

By using two-stage least squares regression analysis, we show that GDP per capita has no substantial effect on electoral democracy in Asia. In contrast to Boix (2011), who found that GDP per capita has a positive effect on democracy worldwide by using two-stage least squares

regression analysis as well as fixed effects regressions, we find that the relationship between GDP per capita and electoral democracy is weak in size. At least in Asia, GDP per capita does not affect the state of electoral democracy after 1960, consistent with the developmental autocracy literature that states that authoritarian states can reproduce authoritarian stability through good socio-economic performance, at least for some time, because performance produces specific regime support. It indicates also that economic development in Asia is not correlated with democracy. Neither does development increase the probability for electoral democracy in Asia, as is assumed by the “endogenous modernization theory”; nor does economic development decrease the level of democracy. This is also a relevant finding, because the comparative authoritarianism literature contends that economic performance is a major source of legitimation and resilience for authoritarian regimes (von Soest and Grauvogel 2017; Dukalskis and Gerschewski 2018).

From Democracy to Economic Development?

In this section, we examine the effect of democracy on GDP per capita for twenty Asian countries in our sample for which sufficient data is available. Again, we run fixed effects regressions and two-stage least squares regressions. In summary, we find that the economic implications of electoral democracy on GDP per capita are weak. Electoral as well as liberal democracies have no advantage over autocratic rule in Asia. In other words: whether a country has a democratic regime or not does not seem to matter for economic development in the long run.⁶ Figure 5 estimates the relationship between economic development (GDP per capita) and electoral democracy using PSCE-regression analysis with time and countries fixed effects.⁷ Models 1, 5 and 9 are the baseline models estimating the effect of electoral democracy on GDP per capita and controlling for the lagged dependent variable. Models 2, 6, and 10 add the rule of law index as a control variable, while Model 3, 7, and 11 control for rule of law and GDP growth. Models 4, 8 and 12 estimate the effect of different regime types on GDP per capita (not reported here).

FIGURE 5: TIME SERIES CROSS SECTION REGRESSION ANALYSIS OF THE EFFECT OF ELECTORAL DEMOCRACY ON GDP PER CAPITA (LOG)

⁶ Note that this is the result of our fixed effects regression analysis. We did not instrument the regime type variable.

⁷ The effects of regime types are reported in Table A4 in the Online Supplementary Material.

Notes: The dots represent estimated effects of the independent variables on GDP per capita (log). The whiskers show the 95% confidence intervals of these estimates. All models are based on 20 countries and between 1,673 and 1,338 country-year observations (unbalanced panel) and uses PCSE. Table A4 in the Online Supplementary Material reports the results in table format.

We find that neither in the short, medium nor long run is an increase in the electoral democracy index substantially correlated with GDP per capita, when controlling for rule of law and GDP growth. The point estimate is negative, but very weak and the effect range from negative to positive associations between GDP per capita and electoral democracy. However, Figure 5 suggests that rule of law seems to be an important driver for economic development in Asian

countries. As Peerenboom and coauthors (2006) note, Asian countries, especially East Asian countries, tend to do much better on economic rights and rule of law measures relative to other non-Asian countries in their income group. One would only have to think of Singapore and Hong Kong, but also pre-democratic South Korea and Taiwan, or pre-War Japan, who established well-developed legal systems, notwithstanding the lack of democracy and a restricted scope of individual rights.

FIGURE 6: CHANGES IN LEVEL OF RULE OF LAW AND LEVEL GDP PER CAPITA, 1960-2015

Notes: Data on rule of law comes from Coppedge et al. (2018a). Data on GDP per capita comes from the Maddison Project Database (Bolt et al. 2018).

While the V-Dem's aggregated rule of law index has an explanatory effect, which supports previous findings in the institutionalist literature on the rule of law and economic growth, it is not clear what components of the rule of law are most significant—property rights protection, checks on government, judicial independence, levels of civil conflict or criminality, or corruption (for more detail, see Haggard and Tiede 2011).⁸

⁸ Because of the difficulties in isolating the effects of a particular dimension of the rule of law, either theoretically or methodologically, Haggard and Tiede (2011) suggest that it may be more useful to think

To account for potential endogeneity between GDP per capita and electoral democracy, we use regional democratic diffusion⁹ as an IV for electoral democracy (see also Acemoglu et al. 2019, Miller 2015, Wang and Xu 2019). We examine whether our baseline results from the fixed effects regressions are driven by different regional patterns of democratic diffusion. The Stock-Yogo test indicates that regional diffusion of democracy is a strong instrument for electoral democracy. Furthermore, regional democratic diffusion is uncorrelated with the dependent variable economic development, indicating that it is a valid instrument. Figure 7 shows that switching from fixed effects regressions to two-stage least squares regressions does not change the finding that electoral democracy has no powerful effect of the level of economic development in Asia. In all two-stage regressions models, electoral democracy has negative point estimate on GDP per capita, ranging from substantial negative associations, to substantial positive associations, indicating the uncertainty of this association. However, the effect of electoral democracy is negative on GDP per capita, indicating that an increase in electoral democracy by 0.2 results in a decrease of log GDP per capita by 0.0668 twenty years later. However, as Figure 7 indicates, the negative effect of electoral democracy on GDP per capita is very uncertain, regardless of time horizon. Still, we will return to the implications of these findings for the appropriate sequencing of political, institutional, and legal reforms in the conclusion.

FIGURE 7: TWO STAGE REGRESSION ANALYSIS: IV ESTIMATES OF THE EFFECT OF ELECTORAL DEMOCRACY ON (LOG) GDP PER CAPITA (SECOND STAGE PLOTTED)

about what they call “rule of law complexes”, that is “interlocking sets of institutions that can combine to stunt or promote economic growth, but in somewhat different ways across countries.”

⁹ Following Haber and Menaldo (2011), regional diffusion of democracy is calculated as the percentage of democracies in a region in a given year.

Notes: The dots represent estimated effects of the independent variables on GDP per capita index. The whiskers show the 95% confidence intervals of these estimates. All models are based 2SLS regression analysis using regional democratic diffusion as an instrument variable for electoral democracy. Models estimate the effects for 20 countries and between 1,191 and 998 country-year observations (unbalanced panel). Table A5 in the Online Supplementary Material reports the results in table format and shows the first stage results.

In all models the coefficients of the instrument variables (first stage regression) are positive. As shown in Figure 7, our results remain robust in the two-stage least squares regression indicating that the effect of electoral democracy on the level of income is weak or non-existent

for Asian countries. In other words: We do not find empirical evidence that electoral democracy is a relevant cause of economic development in Asia.

Democracy, Development and State Capacity in Asia

We now turn to explore the effects of state capacity on the level of income. The concept of state capacity denotes the “ability of state institutions to effectively implement official goals” (Hanson and Sigman 2013: 2; see also Skocpol 1985). While there is no universal definition and conceptualization of state capacity, Hanson and Sigman (2013) summarize the existing literature by distinguishing between three key dimensions of capacity: extractive, administrative, and coercive. Coercive capacity refers to the state’s ability to maintain a monopoly over the legitimate use of force, including both the ability to maintain order within the borders of the state and to defend the territory against external threats (Croissant and Hellmann 2018). As Fukuyama (2014: 1329) points out, coercive capacity is not a “binary, on-off condition”. Instead, the extent to which a state is able to provide security to its population can be measured as a continuous variable that ranges from near-absolute security to the complete breakdown of state authority. Similarly, administrative capacity is a scalar concept, indicating the degree to which public state organizations are governed by meritocratic recruitment and formally institutionalized rules, rather than by forms of particularism such as corruption, clientelism, nepotism, cronyism, or patronage.

Finally, the third type of state capacity is the ability of the state to raise revenues (extractive capacity). As Hanson (2018) notes, extractive capacity “is not only essential for funding state activities of all types, but it serves as a marker for the capabilities that underlie state power.” Based on the existing “developmental state” and “stateness” literature, we assume that state capacity has a positive effect on economic development, because it allows political leaders to draft and implement growth-enhancing policies.¹⁰ Yet, it is important to note that state capacity is not a sufficient condition for economic development. Obviously, the fact that a government does have a high capacity state at their disposal is not sufficient to explain why political leaders decide to pursue developmental goals (Donner, Ritchie and Slater 2005; Stubbs 2009). In fact, there is a rich literature on East and Southeast Asia that demonstrate the importance of additional structural, institutional and motivational factors such as the intensity of “revolutionary threats” (Acemoglu and Robinson 2006), the degree of “systematic

¹⁰ The East Asian variant of the developmental state in particular had gained tremendous currency as a model for state-led economic development. It should be noted, however, that the core idea of the developmental state—that strategic state intervention into the market can facilitate industrial transformation and economic growth more generally—is nothing especially new or distinctly Asia (Woo-Cummings 1999; Wong 2004).

vulnerability” (Donner, Ritchie and Slater 2005), the lack of alternative sources of revenues („resource scarcity”, Gallagher and Hanson 2013), and the specific configuration of elite coalitions and particularistic networks (Rock and Bonnett 2004; MacIntyre 2000; Rock 2017) that incentivized political elites in Asia to pursue developmental goals but also boosted their ability to implement growth-enhancing policies.

To evaluate the effect of the change of state capacity and its effect on economic development, Figure 8 plots the relationship between changes in GDP per capita (log) between 1960 and 2010 against the change in state capacity index. As reflected in this graph, different countries exhibit different trajectories of state capacity development. Based on the state capacity data collected by Hanson and Sigman (2013) it seems that state capacity has strengthened across the region since the 1960s, with only a few exceptions. We find that most countries in Asia exhibit a strong increase in state capacity and economic development.¹¹ The two outliers are Afghanistan and Singapore. Afghanistan is subject to a decrease in state capacity and economic development (certainly a consequence of more than thirty years of civil war), while Singapore experienced the most dramatic increase in income and state capacity from 1960 to 2010 (latest available year).

FIGURE 8: CHANGES IN LEVEL OF INCOME (LOG GDP PER CAPITA) AND LEVEL OF STATE CAPACITY INDEX, 1960-2010

¹¹ Myanmar and North Korea show a decrease in state capacity but a minor increase in income between 1960 and 2010.

Notes: State capacity is the value of the capacity1 measure developed by Hanson and Sigman (2013) in their State Capacity Dataset, version 0.95 (Hanson and Sigman 2013). Data on GDP per capita comes from the Maddison Project Database (Bolt et al. 2018).

Figure 9 presents regressions with fixed country and year effects and shows that state capacity is an important predictor of GDP per capita in Asian countries between 1960 and 2015, but not electoral democracy. Models 1, 6 and 11 are the baseline models estimating the effect of State Capacity on GDP per capita and controlling for the lagged dependent variable. Models 2, 7, and 12 add the rule of law index. Models 3, 8, and 13 control for GDP growth. Next, Models 4, 9, and 14 add electoral democracy as another independent variable. Finally, Models 5, 10, and 15 estimate the effect of the interaction between state capacity and electoral democracy.

FIGURE 9: TIME SERIES CROSS SECTION REGRESSION ANALYSIS OF THE STATE CAPACITY (HANSON AND SIGMAN INDEX) ON GDP PER CAPITA (LOG)

Notes: The dots represent estimated effects of the independent variables on GDP per capita (log). The whiskers show the 95% confidence intervals of these estimates. All models are based on 20 countries and between 992 and 711 country-year observations (unbalanced

panel) and uses PCSE. Table A6 in the Online Supplementary Material reports the results in table format.

The five-year lag models show that state capacity as well as rule of law have substantial positive effects on GDP per capita in the short run. In addition, the effect of rule of law and state capacity remain stable for the ten year lag model. Even after 20 years, the effects of state capacity on GDP per capita remains substantial. On the other hand, state capacity seems to be a “regime neutral” quality, in the sense that it facilitates autocratic and democratic survival (Andersen et al. 2014). In fact, the findings of Andersen et al.’s (2014) cross-national, statistical analysis show that state capacity (especially coercive capacity but not administrative effectiveness) does indeed tend to enhance the stability of autocratic regimes. And while state capacity is positively associated with the survival of democracies, “too strong” states can be detrimental for democratic quality.¹² In addition, the causal relationship between state capacity and democratic quality is bidirectional, that is, democratization also affects state capacity (Bäck and Hadenius 2008; Carbone and Memoli 2015). To evaluate the effects of the interaction between electoral democracy and state capacity, we use Figure 10 to illustrate these interactions for the 20 year lag model (based on Model 15 in Figure 9). Figure 10 clearly shows that the effect of state capacity vary between different levels electoral democracy. In addition, for a low level of state capacity of -2 (for example Afghanistan in 1993 and 1994) the effect of state capacity is lower than for a state capacity of 2 (for example Singapore after 1997) for all levels of electoral democracy.

¹² For example, Hellmann (forthcoming) in his analysis of the relationship of strong stateness and low democratic quality in South Korea argues that “high state capacity does not automatically translate into high-quality democracy; instead, the historical process of state building and path-dependent effects are key intervening variables that shape the quality of democracy in transition polities.” In the case of South Korea, the strength of the authoritarian developmental state contributed to the weakness of political parties, intermediary organizations and civil society, and, hence, is one of the primary causes for the structural weakness that is characterizing “the architecture of state-society relations” in post-authoritarian South Korea.

FIGURE 10: ESTIMATED COEFFICIENT OF STATE CAPACITY BY ELECTORAL DEMOCRACY

Notes: Based on Model 15 in Figure 9. Conditional effect of state capacity and electoral democracy. Line represents the estimated effect on the dependent variable. Spikes shows 90% confidence intervals.

5. Conclusion

Using a data panel for 20 Asian countries from the early nineteenth century to the second decade of the twenty-first century, this chapter makes four main claims. First, it shows that the effect of the level of economic development on the level of electoral democracy is weak, when controlling for country and year effects. Instrumenting for economic development and

using two-stage least squares regression to account for endogeneity between democracy and income, the effect of GDP per capita is still weak and uncertain. Second, we find that electoral democracy is not statistically associated with the level of economic development for our sample of Asian countries, neither in the baseline model using fixed effects regression analysis, nor in the two-stage analysis with instrumenting democracy by the regional diffusion of democracies. Third, this chapter shows that state capacity is a main driver of economic development, when controlling for country and year effects and the level of democracy as well as the interaction between democracy and state capacity. Fourth, our findings regarding a positive link between rule of law and economic development in Asia are consistent with the existing empirical evidence derived from global samples. While the correlation between income and rule of law is especially strong in Asia, the two are also positively correlated when using cross-regional samples (Haggard, MacIntyre and Tiede 2008; Haggard and Tiede 2011). The legal systems of the high growth countries such as Japan, Singapore, South Korea and Taiwan (as well as Hong Kong) measure up favorably in terms of economic freedoms and rule of law. Within the group of Asia-Pacific countries, Mainland China is somewhat of an exception because rapid increase in income coexists with thin rule of law and restrictions on economic freedoms (protection of value of value of money, free exchange of property, a fair judiciary, few trade restrictions, labor market freedoms and freedom from economic coercion by political opponents). In contrast, the legal systems of most of the low growth countries are among the weakest in the region. In summary, countries with more “electoral democracy” do not tend to perform better in economic development. On the other hand, countries with better legal systems and stronger state capacity do perform significantly better, regardless of the degree of electoral democracy. The implications of these findings for the appropriate sequencing of political, institutional, and legal reforms in Asia-Pacific (perhaps also beyond the confines of this particular region) are obvious. At least with regard to economic development, the effects of introducing or strengthening elements of electoral democracies are far less relevant than strengthening the rule of law and state capacity.

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