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Pathways to Prosperity

Democracy Playbook

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- Our Research Programmes analyse the many complex drivers of poverty and prosperity at the local, national and global level.
- Our Practical Programmes identify the actions required to enable transformational change.

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Introduction

This report is part of a series of reports to share lessons on how people have made their societies more open and prosperous. This first playbook focuses on democracy. Our goal is to share this knowledge about democracy with those committed to seeking the prosperity of their societies.

The report focuses on the development of political institutions because they are the key to prosperity. What matters for prosperity? We respond, rephrasing President Clinton, "It's the political institutions, stupid."¹ In our analysis, countries' prosperity and their 'economic miracle' starts with the development of political institutions. Political development consists in the process by which state institutions, the rule of law, and democratic accountability increase their autonomy and capacity.²

Traditional development analysis underestimates the importance of the political infrastructure – the 'plumbing'. It neglects the understanding of political systems, the role of political parties, and the financing of parties.

Developed political institutions allow political leaders and the state to deliver peace, stability, and better services to citizens. A developed state must have high delivery capacity but also be constrained by the judiciary and democratic accountability institutions. The key institutions that facilitate the path to prosperity include an independent judiciary, constitutional checks and balances, independent electoral institutions, and free and fair elections. In other words, prosperity depends on full adherence to the principles of liberal democracy.³

Liberal democracy is also the key to human prosperity because it is the only political system that constitutionally guarantees citizens' freedoms, human rights, human dignity, and agency (including participation in governance). Hence, citizens enjoy greater freedoms and the ability to lead more fulfilled lives. Liberal democracy allows human flourishing.

The capacity of the state, the rule of law, and accountability of institutions do not necessarily evolve in parallel, but the transition to full liberal democracy requires some balance between these institutions. For example, if a country starts with very low state capacity and weak rule of law, the transition from dictatorship to full liberal democracy appears less likely. Similarly, problems arise if a country starts with very high state capacity, but very low democratic accountability.

Political development is also affected by economic growth, not only because it gives political legitimacy to a regime (such as that of China), but also because it contributes to the emergence of new social groups. For example, it has fostered the growth of the middle and working classes, who have played a key role in democratisation transitions. However, social mobilisation could also result in the regression of political institutions and political decay. This happens when political institutions are not able to accommodate new political actors.

A minimum 'quality' of key political institutions (state, rule of law, democratic accountability) plus the cohesiveness of society (common national identity) can facilitate political transitions from dictatorship to full liberal democracy. This positive institutional environment can open the door for new social groups and coalitions to introduce reforms to reduce rent-seeking and consolidate their political coalition. Political leaders who manage to reduce rent-seeking and reward their coalition of essential supporters can be re-elected, thereby ensuring the continuity of their changes and policies.

We use this framework to understand how countries have managed successful transitions from dictatorship to full liberal democracy in recent decades. We selected countries where this transition occurred within the past 50 years and took them to the status of a full liberal democracy in less than twenty years. The examples studied are Korea, Uruguay, Portugal, and Estonia.

We also compare these successful political transitions to full liberal democracy with the experience of countries where the transition to democracy has been partial, such as the cases of Chile, Peru, Indonesia, and Ghana.

The report includes the following sections:

Section 1 introduces the overall framework for understanding and analysing transitions from dictatorship to democracy.

Section 2 introduces the eight country cases and outlines their different political transformations.

Section 3 explores the key factors that contributed to the fall of dictatorships in these eight country cases.

Section 4 illustrates how the dictatorships of Korea, Uruguay, Portugal, and Estonia transitioned to full liberal democracies.

Section 5 shows how Chile, Peru, Indonesia, and Ghana transitioned from dictatorship to flawed/partial democracy.

Section 6 summarises key lessons from our review of the eight case studies, especially in relation to understanding how political development can help to achieve more political equality and democracy.

Notes

- 1 In contrast to the “It’s the economy, stupid” of Clinton’s 1992 election campaign; Rana Foroohar, *It’s not just the economy, stupid*, Financial Times (2022).
- 2 F. Fukuyama, *Political Order and Political Decay: From the Industrial Revolution to the Globalisation of Democracy*, (London: Profile Books, 2014).
- 3 Liberal democracy referring not to a liberal economy, but to respect for the rule of law and political rights and civil liberties, as defined by F. Fukuyama in *The Origins of Political Order* (2011).



People on the famous street Stroget in Copenhagen, Denmark.
Credit: Michael715.

1. Political Equality as Key to Prosperity

This section asserts the primacy of politics in understanding how countries become more prosperous – a prosperity that includes freedoms, agency, and dignity for all citizens.¹

First, we describe the features of the political system that best support prosperity and limit rent-seeking and privileges for 'vested groups'.² Second, we discuss how political liberal democracy is the only system that constitutionally guarantees the civil liberties, political rights, dignity, and agency (participation) of all citizens. Third, we describe key features of the journey from an authoritarian and patrimonial state to a full liberal democracy – “How to Get to Denmark”.*

Liberal Democratic System

A successful modern state is constrained by the rule of law and institutions of political accountability. Fukuyama's monumental work on Political Order³ finds that societies are prosperous and well-governed when they have a strong state, rule of law, and democratic accountability institutions. He also notes that national identity and social cohesion have been pivotal to the success of modern states.⁴

Prosperity requires a minimum political infrastructure with high-quality, autonomous, and democratically accountable institutions in the civil service, judiciary, electoral institutions,⁵ and political parties.

State Capacity

A strong and effective state is needed to maintain peace, enforce laws, administer taxes, and provide public goods. It has the capacity to get things done through a civil service that is impersonal, recruited based on merit and competence, and legally prohibited from using office for private gain.⁶ A modern state concentrates and deploys power to enforce rules on an impersonal basis. In such a state, a citizen's relationship to the ruler does not depend on personal ties, but simply on one's status as a citizen. The state administration is not in the hands of the ruler's family and friends. Recruitment is based on impersonal criteria, such as merit, education, or technical knowledge.

However, this strong state still has the potential to dominate the rest of society. In Fukuyama's words, it is critical that “(state power) is used only in a controlled and consensual manner”.⁷

Difficulty of building state capacity in a democracy

Historically, countries such as France, Germany, and Japan were able to build a strong and highly autonomous civil service under authoritarian regimes. Building a civil service under democracy – for example, the US and Greece – often results in civil service appointments and resources being used by political leaders to reward their supporters. Fukuyama argues that the US was able to move from a clientelist civil service to a merit-based service only in the 1880s. This became possible because of the mobilisation of the middle classes and progressive businesses, both affected by the poor performance of the civil service.

As in the US, the role of the middle classes and progressive business interests is key in strengthening state capacity in low and middle-income countries. By contrast, Asia's indigenous institutions help to explain the relatively high capacity of the state in Taiwan and Korea.

* By “Getting to Denmark”, Fukuyama means the path to becoming an imagined society that is prosperous, democratic, secure, and well governed.

Rule of Law

To avoid domination by the state, society needs to constrain it with a strong rule of law that applies equally to all citizens (an independent and competent judiciary). The rule of law represents the existence of a set of rules of behaviour, reflecting the broad consensus within society, which is binding on even the society's most powerful actors, whether kings, presidents, prime ministers, or business tycoons. These rules are usually embodied in a separate judicial institution that can act autonomously from the executive and grants individual rights to citizens, recognising the citizen's dignity.

Democratic Accountability

To further constrain the state, the government needs to be responsive to the interests of the whole society, rather than just narrow vested interests. Hence, there need to be institutions of democratic accountability, which make leaders responsive to their citizens (regular free and fair elections, electoral institutions, political parties, regulations, etc.). These include distributed leadership and the consent of the governed. These institutions are usually related to free and fair multiparty elections that allow citizens to choose and discipline their leaders. This is needed because unconstrained rulers, even if responsive to the common good, usually cannot be trusted to remain so forever.

The priority of all political leaders is to win and keep political power (see *Logic of Political Survival* below). Therefore, the success and survival of a political leader depend on their ability to reward their coalition of essential supporters, that is, those who help them to win and keep power. Dictators rely on the support of only a few cronies, and that is why it can be easier for dictators to retain power. By contrast, in a liberal democracy, leaders depend on the backing of a large number of voters.

Social Cohesion

The distribution of political power, wealth, social cohesion, and common national identity in a society are key determinants in the development of accountability and rule of law institutions. Societies with a more equal distribution of power find it easier to strengthen political institutions that offer more equal access to justice or political power for all citizens.

Moreover, a common national identity and social cohesion help to transcend ethnic and religious cleavages and favour the resolution of conflicts through conciliation as opposed to violence and polarisation. This permits a focus on building the state, the rule of law, and accountability institutions. By contrast, in countries with low social cohesion, populist political entrepreneurs can exploit ethnic and religious cleavages for their own political advantage. Weak social cohesion, ethnic conflict, or political polarisation all make it difficult to strengthen state capacity. Introducing elections in a context of weak social cohesion, state capacity, and rule of law is unlikely to advance democracy.

Importance of Political Equality for Prosperity

"The miracle of modern politics is that we can have political orders that are simultaneously strong and capable and yet constrained to act only within the parameters established by law and democratic choice."⁸

A liberal-democracy political system in which the rule of law and democratic accountability constrain not only the state but also all other citizens and organisations – including the most powerful – keeps rent-seeking and special privileges under check. It supports open societies and competition. It also provides a high level of political equality because all citizens have access to political power, are protected by the law, and participate in the governance of their country.

A fundamental feature of liberal democracy is that it is the only political system that constitutionally guarantees personal freedoms – the civil liberties, political and human rights, dignity, and agency (participation) of all citizens. This is consistent with the work of Sen, who argued that political rights are an inseparable part of human freedom because they give individuals agency to exercise their choices.⁹ Therefore, full liberal democracy is the only political system that is consistent with attaining the highest levels of human prosperity.¹⁰

In a full liberal democracy, the coalition of essential supporters has expanded to all voters. Greater political equality has been achieved because political leaders depend on the votes of all citizens. In this situation, it is in the interest of political leaders to provide rewards to all voters (an essential coalition of supporters), rather than to narrow 'vested-interest' groups.

Liberal democracy is the political system that best promotes prosperity because it is the only system in which political leaders' interests can be aligned with those of citizens. In all other regimes, their interests part ways from those of citizens to differing degrees. Political leaders in less than full liberal democracies will create monopolies, public enterprises, and other forms of rent-seeking to reward their narrow coalition of essential supporters.*

Economic policies, from macro to industrial, depend on the quality of these political institutions and their capacity to control rent-seeking. For example, an effective industrial policy can only be implemented by a government with strong capacity and bounded by political accountability and the rule of law. Otherwise, any industrial policy is likely to be captured by vested interests.

Transitioning to Democracy

Transitioning from dictatorship to full liberal democracy is a difficult process. It is necessary not only to provide some civil liberties and electoral democracy, but also to upgrade (when needed) the key institutions of state capacity, rule of law, and democratic accountability. Generally, this requires relatively strong social cohesion, a relatively equal distribution of political and economic power (such as that achieved through land reforms in Japan, Taiwan, and Korea), or the imposition of democracy and rule of law by third countries (as in the case of Japan and Germany after World War II).

In what follows we set out some of the essential components of the transition to full liberal democracy. In subsequent sections, we will show how, in the more successful cases, reformist governments secured the transition through these components whereas the less successful cases applied them incompletely.

The Logic of Political Survival

Bueno de Mesquita argues that the behaviour of all political leaders is best understood through the simple logic of political competition, rather than by focusing on 'public interest'.¹¹ Leaders focus on winning and keeping political power, regardless of ideology, nationality, or culture. "The self-interested calculations and actions of rulers are the driving force of all politics."¹² This is politics without romance.¹³

In Bueno de Mesquita's framework, a scale of dictatorship to full liberal democracy is determined by the size of the coalition of essential supporters backing the government in question. A liberal democracy would be defined as a political system where the ruler is backed by a very large coalition of supporters. Hence, a move to more democracy requires an expansion of the coalition of political supporters.

The logic of political survival comes to the same conclusion in relation to the advantages of full liberal democracy as the work of Fukuyama and North.

A key prerequisite for a country to transition to full liberal democracy is the absence of major conflicts. One of the first steps in the transition to democracy is the formation of a modern state where state power moves away from a family and friends-basis to a more non-patrimonial and impersonal basis. This also involves moving away from 'extractive' institutions that allow the elite to extract wealth from those outside the elite. The creation of this non-patrimonial state is supported by the presence of the rule of law (that can bind the rulers) and, ideally, a minimum of democratic accountability and social cohesion at the beginning of the transition period.

* This process is described in detail by North et al. 2007 as a 'limited access order'.

Building Social Cohesion

Prosperity requires both internal and external stability. Consensus, social cohesion, and a common national identity support the transition to full liberal democracy. A degree of social cohesion helps ensure the new regime has a chance to establish itself with fewer challenges to its legitimacy. Control of rent-seeking is key to the transition to full liberal democracy and requires policies that are supported widely by society and political parties. Following the end of a dictatorship, cohesion can be built through national dialogue and conciliation programmes as well as by the deliberate efforts of the government to build coalitions with other political and civil society actors. The challenge facing many countries today is how to build a strong merit-based modern state in the context of a competitive democracy and weak social cohesion.

Civil Wars and Democracy

Barbara Walter's study of civil wars¹⁴ concludes that they are most likely in countries that have recently moved towards democracy from dictatorship or autocracy or, more precisely, when they are in the space between a dictatorship and a democracy (anocracy). These civil wars are typically based on ethnic and religious factions, rather than on ideology or class.

This is because, in the state of 'anocracy', the government has lost some of the repressive powers of a dictatorship and the field is open for "ethnic entrepreneurs" to exploit ethnic cleavages and the resentment of the local ethnic group through populism. Walter finds that the strength of political institutions, especially constitutional constraints on the state, is a key variable in determining whether a civil war will be repeated.¹⁵

Similarly, Blattman¹⁶ argues that democratic political orders with constitutional executive constraints, accountability, and transparency reduce the risks of civil war.

His book "Why we Fight" argues that one of the key factors in war is the unchecked interest of authoritarian leaders. This is because the authoritarian leader's calculation does not take into account the costs a war imposes on society. The dictator does not depend on all citizens to remain in power, but only on a narrow group of essential supporters. Moreover, the calculation for choosing war will include the potential benefit of seizing control of another country's natural resources, which can serve for personal use and to reward the narrow coalition of essential supporters.¹⁷ By contrast, a democratic leader's war calculation will include lower benefits and higher costs (costs for society). As a result, democratic leaders are more cautious about entering wars.

Strengthening the Rule of Law

Strengthening the rule of law and establishing an independent judiciary are key factors in supporting the transition to full liberal democracy. Under a dictatorship, the rule of law tends to be weak, operating as rule *by* law, often with a corrupt judiciary. The challenge for a reformist government is to establish a judiciary that is independent not only of the institutions of the state (especially the executive) but also of vested interests. Rule of law subordinated to 'vested interests' makes it impossible to transition to a full liberal democracy. In a transition to full liberal democracy, the military must also be subordinated to the rule of law.

Political transition to a full liberal democracy requires control of political rent-seeking. This cannot be achieved in the absence of a competent and independent judiciary to ensure that neither the state nor powerful individuals are able to break the law to gain private benefits. Applying the rule of law universally requires as a pre-condition addressing vested interests and rent-seeking across society.

A strong and independent judiciary requires strong social cohesion and the presence of political parties that all agree on the rule of law as a priority in society. This is a key obstacle for countries seeking to transition to a full liberal democracy

Developing Political Accountability

Another key to the transition to a full liberal democracy is the development of a stable political system able to produce governments that reflect the demands of citizens, based on the principle of equal political access – that is, whereby all citizens have a meaningful voice, in contrast to dictatorship or partial democracies.

Political and economic power should not be overtly concentrated to make it easier for all groups to accept the selection of political leaders through free and fair elections. Furthermore, there should be a public conviction in favour of democracy, and both the government and the opposition should be loyal to the political system.

For political accountability to be maintained, a track record of successful democratic elections also helps. This history of successful elections provides a polity with the opportunity to learn how democracy operates best, how to form effective coalitions, for citizens to vote strategically, how to best regulate political parties, etc. This learning and reform process takes some time to become embedded in the political system and is key to a successful transition to full liberal democracy.

Strong Political Infrastructure

The transition to a full liberal democracy requires a process in which political infrastructure is built. This infrastructure includes a civil service, a judiciary, political parties, and electoral institutions that are high-quality, rules-based, and democratically accountable. It also includes properly regulated political parties, with minimum standards, internal competition, limits to campaign finance, etc. Political parties are critical for incorporating new groups into the political system.

Political leaders can support the transition to full liberal democracy by understanding the importance of building and maintaining this political infrastructure and treating the political system as a utility that requires strong and efficient regulation.

Programmatic Political Platforms

Political accountability matures when parties achieve consolidation and make greater use of programmatic political platforms, rather than platforms based on ethnicity and religion. In such circumstances, programmatic election campaigns are based on citizens' attachment to ideologies, including welfare and egalitarianism or a free market with little state intervention. Reformist governments win power by selling a vision focused on reducing political rent-seeking, special privileges, monopolies, and corruption and on opening the economy for excluded groups (small farmers, informal entrepreneurs, etc.) while expanding social welfare and social spending.

Key to Transition to Full Liberal Democracy: Reduce Rent-seeking

Incumbent rent-seeking governments have tended to produce policies that benefit politically connected business interests, rigging the economy in their favour.* A reformist government cannot simply provide continuity, but must also reduce rent-seeking. In moving to a full liberal democracy, it is necessary to introduce effective policies to reduce political rent-seeking in the economy, reducing the privileges of 'vested interests'.

* Rawlings, however, introduced structural reforms that benefitted small farmers, partly because this was requested by an essential supporter of the regime (World Bank/IMF) as well as because Rawlings was already building a coalition of essential supporters.

Rent-seeking and Political Stability

Rent-seeking activities are generally seen as negative for society. Rents and privileges involve manipulating the economy in ways that inhibit open markets. They require limits on access to organisations and, therefore, limits on competition in both economics and politics. According to North et al. (2007), "Rent-creation through the assignment of exclusive rights and privileges and the selective suppression of competition is at the heart of the limited access order."¹⁸ However, North also argues that this political rent-seeking is also an effective way to control violence in a society, with the stability of these rents supporting social order and limiting conflict. This is because political rent-seeking gives political elites incentives to refrain from violence by granting each of them privileged control over parts of the economy. By contrast, in a full liberal democracy, most rent-seeking activities are replaced by open access and open competition as a way to control violence.

After winning political power, reformist governments need to exercise caution in introducing policies that curtail rent-seeking because rent-seeking is also a mechanism for maintaining political stability. They need to prepare carefully because the odds are against them. Old elites have political and economic power and know how to use it to block attempts to reduce rent-seeking. A wise approach is to implement incremental reductions in rent-seeking based on policies on which there is broad consensus.

In Japan, Korea, and Taiwan, the consequences of war and US-supported land reforms weakened the old elites' hold on political power, making changes in political institutions and the reduction of rent-seeking possible. By contrast, in Latin America, elites (especially landowners) have used the state to repress the demands of new social groups, protecting their rent-seeking activities.

Second Democratisation

The transition to a full liberal democracy can require a second 'democratisation' process, led by 'disruptive' political parties. Political leaders need a clear mandate to reduce political rent-seeking and free the economy from the control of vested interests. This often requires new political leaders who broaden their coalition of essential supporters. This can be done through a 'disruptive' political party that gains support from both the middle and working classes. Many countries are unable to master this second democratisation phase and the patrimonial nature of the political system does not change (see Section 4).

Mobilisation and Accommodation of New Social Groups

In a successful transition, citizens gain in political equality. There is a move towards expanding the government's coalition of essential supporters. Full liberal democracy requires that broader groups gain access to political power – that is, citizens' votes become more needed by political parties, making the political system more responsive.

In the past, greater political equality was achieved through the political organisation of new social groups. In Europe, for example, this occurred when the middle classes and industrial working classes demanded the extension of the political franchise. In some cases, the traditional elites introduced reforms to enhance their political attractiveness by, for example, expanding the franchise and introducing social reforms, as in Germany and the UK.

Political institutions are by nature resistant to change. However, successful political institutions are able to accommodate the demands of new social groups. When this process fails, the political order can regress to a dictatorship as, for example, in the recent case of Venezuela.

A reformist government can rebalance the economy to treat small farmers and informal entrepreneurs equally and with fairness. These groups, discriminated against by the old elites, can provide new strength to the economy and political support to reformist governments, contributing to their

consolidation.¹⁹ Incumbent rent-seeking governments typically curtail the dynamism of the economy by limiting opportunities for small farmers and informal entrepreneurs, making them an untapped resource.

While authoritarian governments focus on providing rewards to narrow vested interests, a full liberal democratic government seeks to provide rewards for all citizens. A full liberal democracy has political institutions that help to accommodate the demands of new social groups, reducing the potential for conflict.

Increasing Social Spending and Social Welfare

Reformist governments need to reward their coalition of essential supporters. They do this mostly by increasing social spending and social welfare. This spending also contributes to reducing social conflict and strengthening social cohesion.

Historically, increases in social welfare and social spending have occurred when new social groups – such as labour movements – gain political power and are able to implement policies to strengthen public education, health services, and the welfare system. This is also a key policy to ensure that the reformist government is re-elected and that changes in the political system and the reduction of rent-seeking become embedded, making a reversal of gains less likely. As a result of the broadening of the system, a full liberal democracy reduces the incentives to create more political rent-seeking.

Embedding the 'Second Democratisation'

For a reformist government, winning the first election is the easy part. To consolidate the transition to a full liberal democracy, it then needs to implement its programme in a way that ensures its re-election. The legitimacy of a reformist government will also depend on its capacity to effectively deliver not just democracy, but also public goods and social welfare.

A reformist government must ensure that it is able to weaken rent-seeking sectors and reward the loyalty of its own essential supporters. Otherwise, if the old political elites regain power, they will be able to undo the transformations implemented to reduce rent-seeking and privileges.

Reformist ideas and policies need to be embedded in society and valued by broad sections of the population. Re-election based on a reformist record helps to ensure that these vote-winning ideas are also adopted by other political parties. In this way, these policies and the values of transparency and inclusion become the norm and part of a new political consensus.

Reforms to strengthen democratic accountability and rule of law institutions will be supported only if the government has demonstrated a capacity to deliver good economic management and public services – 'Democracy with results'.

Reformist parties (which aim to reduce political rent-seeking) need to act competently and carefully to ensure that they create/maintain economic stability and provide some core policy continuity. They need to be able to maintain the confidence of the private sector and financial markets to ensure that the old elites do not react with a backlash to policies that reduce rent-seeking.

Leveraging Foreign Actors' Support for Democratisation Reforms

Reforming the political and economic structure of societies is not simple. Foreign actors have tried to export democracy and rule of law institutions, often with poor results. Foreign aid has generally not been successful in supporting democratic transitions.

However, in some cases, responses to economic crises and support from foreign actors have been critical in supporting reforms to reduce rent-seeking. In particular, foreign support, through IMF programmes and European Community/EU accession programmes, have played a central role in the success of reformist governments. IMF programmes for reformist governments with broad support have been successful in facilitating transitions to full liberal democracy. However, when the IMF

programme to reduce rent-seeking has been implemented by a government without broad-based support, it has often resulted in protests and violence (see Box above: Rent-seeking and Political Stability). In some cases, the cure has been worse than the disease.²⁰

Economic crises weaken the control of vested interests, making this the best time for reformist governments to implement reforms and for the IMF to provide support. When the timing is right, an IMF programme (that 'imposes' policies to reduce rent-seeking) may be exactly what a reformist government needs to implement these policies without risking a backlash.

Similarly, the EU accession programme provides reformist governments with detailed policies and huge rewards for implementing policies to reduce rent-seeking.

Role of Aid

Why has Western foreign aid bankrolled state-led model dictatorships in Africa?

We have argued that the rule of law and democratic accountability are critical in supporting national development and constraining the powers of the state and vested interests. In the West, great political thinkers have focused on the advantages of liberal democracy as a political system. They include Locke (consent of the governed), Montesquieu (separation of powers), and John Adams (independent judiciary).

On relations with other countries, UK and US citizens think their leaders should focus on a country's human rights record.²¹ However, over the past 30 years, the West's foreign aid establishment has often preferred to support a state-led authoritarian model of development, following a Chinese-style approach. In particular, the US and UK foreign aid establishments have provided substantial financial support to countries such as Ethiopia and Rwanda. The leaders of these countries became favourites of the international aid establishment because they were seen as delivering 'results'. However, these countries, like China, have shown little concern for Western values such as democratic accountability, personal freedoms, and respect for human rights.

The UK foreign aid establishment set up programmes to study the political economy of development, partly to provide a rationale for supporting these state-led or 'developmental' dictatorships. However, the approach neglected to consider the impossibility of implementing a Chinese-style, state-led development model when the civil service has low capacity and is politicised – as in the cases of Ethiopia and Rwanda.

Chinese state capacity is very different to that of Ethiopia and Rwanda. China has a centuries-old tradition of a high-capacity, merit-based civil service and state.²² By contrast, Ethiopia and Rwanda are countries with historically high ethnic tension and conflict and, as a result, have civil services that prioritise political or ethnic loyalty, instead of merit or technical skills.

Ethiopia and Rwanda created state enterprises (generally owned by the ruling party) and made large foreign-financed infrastructural investments, but these actions were implemented by low-capacity states. Ethiopia's current economic and foreign exchange crisis is partly the result of these actions.

Fukuyama notes that political leaders in Ethiopia and Rwanda focused on building capacity for their parties, not for the state, in a bid to control the country and improve their chances of political survival. "State policies generally bolstered the capacities of their parties. State power and capacity in both these countries are entirely dependent upon their respective ruling party, both of which have embarked on endeavours to incorporate all its citizens into their parties and to permeate the economic and social spheres through their political positions."²³

The foreign aid establishment was impressed by the growth of Ethiopia and Rwanda. However, growth under these dictatorships came with repression, storing up potential conflicts.

First, in the absence of mechanisms of accountability, there is the risk that bad leadership cannot be replaced, resulting in serious economic damage to the country. The classic example of this 'bad emperor' problem is Mao Tze Tung and, more recently, perhaps Xi Jinping, who has removed limits to personal rule. Without accountability constraints, leaders are also more likely to get involved in internal and external wars.

Second, repressing the opposition and other ethnic groups in order to remain in power has the potential to aggravate ethnic divisions, weakening social cohesion and storing up resentment for the future. Dictators may think that repression is a good solution, but it does not address the sources of conflict.

The Meles Zenawi dictatorship in Ethiopia illustrates this problem. The UK and US enthusiastically supported 27 years of a mostly Tigrayan-based dictatorship that repressed non-Tigrayan ethnic groups, even though Tigrayans constitute only a small minority of the Ethiopian population. However, this long repression, rather than pacifying the country, has resulted today in a costly two-year conflict between the rebel Tigrayan forces and the Ethiopian federal government. Some analysts believe that the post-Kagame transition in Rwanda may also store up difficulties.

How can Western Foreign Aid Support Democracies that Build Prosperity and not Dictatorships?

The West should be cautious in providing financial and political support to dictatorships and authoritarian governments. Foreign aid helps dictators to protect their interests and those of their narrow group of supporters/ethnic group. In this situation, foreign aid contributes to the consolidation of a patrimonial state, extractive institutions, and a protected economy that favours vested-interest groups. Western donors become part of the dictatorship's coalition of essential supporters.

Instead, foreign aid can play a progressive role if it encourages greater political equality in a country, particularly supporting the role of the middle class. This should increase the odds of reformist groups gaining political power and being able to introduce policies that reduce rent-seeking and favour small farmers and informal entrepreneurs. Middle classes and a reformist private sector are critical for the development of institutions of the state, the judiciary, and democratic accountability.

Foreign aid support should focus on countries that are working to improve their democracies because liberal democracy is the only political order that is constitutionally obliged to respect human dignity, freedoms, and agency for all. Full liberal democracy provides citizens with agency through their participation in political decision-making.

Notes

- 1 This framework is based on F. Fukuyama, *Political Order and Political Decay* (2014), and D. North et al., *In the Shadow of Violence: Politics, Economics, and the Problems of Development* (Cambridge: Cambridge University Press, 2013).
- 2 In reference to 'open access political orders', see North, Douglass C.; Wallis, John Joseph; Webb, Steven B.; Weingast, Barry R. 2007. *Limited Access Orders in the Developing World: A New Approach to the Problems of Development. Policy Research Working Paper; No. 4359*. World Bank, Washington, DC.
- 3 F. Fukuyama, *The Origins of Political Order: From Prehuman Times to the French Revolution* (London: Profile Books, 2011); F. Fukuyama, *Political Order and Political Decay* (2014).
- 4 F. Fukuyama, 'Why National Identity Matters', *The Journal of Democracy* (Vol. 29, Issue 4, October 2018) pp. 5-15. Here, Francis Fukuyama notes how the issue of national identity "has been pivotal to the fortunes of modern states." A shared national identity provides a 'connective tissue' that allows diverse communities to thrive, steering governments away from the dangers of ethnic division.
- 5 Uruguayan President José Batlle y Ordóñez demonstrated his support of the rule of law through the statement, "Seremos una pobre y oscura república, pero tendremos leyes adelantadas." Quoted in the early editions of his newspaper, *El Día*; see Nahum, B. *Manual de Historia del Uruguay. Tomo II 1903-2000*. Montevideo: Ediciones de Banda Oriental, (2004).
- 6 D. Acemoglu & J. Robinson, *Why Nations Fail, The Origins of Power Prosperity and Poverty*, (New York: Crown, 2012). Here, Acemoglu and Robinson argue that nations with a history of extractive institutions have not prospered because entrepreneurs and citizens have less incentive to invest and innovate.
- 7 F. Fukuyama, *Political Order and Political Decay* (2014).
- 8 Ibid. In addition, decentralisation - power at the local level - is another way to constrain governments and the executive. We explore decentralisation as a way to constrain the executive in the Section discussing Indonesia.
- 9 A. Sen, *Development as Freedom*, (Oxford: Oxford University Press, 2001).
- 10 The Legatum Institute's Index of Prosperity includes Personal Freedoms as a key component; see The Legatum Institute, *The Legatum Prosperity Index 2021*, <https://www.prosperity.com/rankings>.
- 11 B. Bueno de Mesquita et al., *The Logic of Political Survival* (Cambridge MA: The MIT Press, 2005); B. Bueno de Mesquita, A. Smith, *The Dictator's Handbook: Why Bad Behaviour is Almost Always Good Politics* (New York: Public Affairs, 2011 and 2022). The logic of political survival also applies to political leaders who are said to have adopted a "commitment to development", as in S. Dercon, *Gambling on Development: Why Some Countries Win and Others Lose* (London: Hurst, 2022).
- 12 B. Bueno de Mesquita, A. Smith, *The Dictator's Handbook*. (2011 and 2022).
- 13 A recent reference to politics without romance can be found in an interview with economist David Ndi. He justifies his support for presidential candidate Ruto, despite having previously described him as "a megalomaniac psychopath with no good deeds" because, after being rejected by President Odinga as his successor, Ruto's interests were aligned with the opposition and no longer with the traditional elite, and Ruto could be trusted to do what was good for his interests. Watch David Ndi: The Elite Have a Problem with the Bottom Up Economy, min. 41. https://www.youtube.com/watch?v=n4K9B_PwDP4.
- 14 B. F. Walter, *How Civil Wars Start, and How to Stop Them* (London: Viking Books, 2022).
- 15 B. F. Walter, 'Why Bad Governance Leads to Repeat Civil War', *Journal of Conflict Resolution*, (Vol. 59, Issue 7, 2015), pp. 1242-1272.
- 16 C. Blattman, *Why We Fight: The Roots of War and the Paths to Peace* (London: Penguin Random House, 2022).
- 17 See also P. Collier & A. Hoeffler, 'Greed and Grievance in Civil War', *Oxford Economic Papers*, (Vol. 56, Issue 4, 2004).
- 18 North, Douglass C.; Wallis, John Joseph; Webb, Steven B.; Weingast, Barry R.. 2007. *Limited Access Orders in the Developing World: A New Approach to the Problems of Development. Policy Research Working Paper; No. 4359*. World Bank, Washington, DC.
- 19 For example, this is an approach that the new Ruto government in Kenya has promised to take, targeting policies to reduce rent-seeking and in support of what they call the 'hustle' economy; watch David Ndi: The Elite Have a Problem with the Bottom Up Economy, min. 41, https://www.youtube.com/watch?v=n4K9B_PwDP4.
- 20 North et al. (2007), *Limited Access Orders in the Developing World* argues that the international financial institution's structural reform programmes often do not understand that monopolies and market interventions support political stability and control violence. This is why so many of their reform programmes have ended up in political instability.
- 21 On the question "Which two or three of the following, if any, do you think should be most important to your leaders when deciding on relations with other countries?", the answer "The human rights record of a country" was the top response in the UK (41%) and second top response in the US (27%). Ipsos Mori, King's College, London, Fulbright Commission, (2019). The Age of Impunity? Global attitudes to human rights.

- 22 Fukuyama argues that a modern state emerged in China 220 BC; see F. Fukuyama, *The Origins of Political Order* (2011). Other Asian countries with high-capacity states that have been said to pursue a high degree of state intervention include Japan, Korea, and Taiwan.
- 23 F. Fukuyama and H. Matfess, “*The March Is Not Linear: Big Party Politics and the Decline of Democracy Worldwide*” in H. Matfess and M. Miklaucic eds., *Beyond Convergence: World Without Order*, Center for Complex Operations, Institute for National Strategic Studies, National Defense University (2016).



Moon Jae-in, the former President of the Republic of Korea meeting with tourists at the Blue House (Presidential Office).
Credit: Chintung Lee.

2. Country Cases: Full Liberal Democracies and Partial Democracies

In this section, we provide a brief introduction to the eight cases – outlining the key milestones in their democratic transition – and identify the characteristics that differentiate the cases that have achieved a full liberal democracy transition from those that have experienced only a transition to partial democracy.

We have selected countries where a democratic transition has taken place within the past 50 years, and which reached the status of a liberal democracy order or full liberal democracy in less than twenty years. The examples studied are Korea, Uruguay, Portugal, and Estonia. We also compare these successful experiences with the experience of countries where the transition to democracy has been partial. In the cases of Chile, Peru, Indonesia, and Ghana, the transition to full liberal democracy has yet to be achieved. More details of the transitions in each country are provided in the appendix.

Measuring Democracy

Measuring democracy is not a simple task, but there are several indexes that measure the quality of political institutions. When assessing the level of democracy of the countries studied, we used the indexes produced by the Economist Intelligence Unit (EIU) and by Freedom House.¹

The EIU rates democracy in a classification that includes full liberal democracy (the highest rating), flawed democracy, hybrid regime, and authoritarian regime. The Index is based on expert assessments and public opinion surveys and covers five areas: electoral process and pluralism, civil liberties, functioning of government, political participation, and political culture.

Freedom in the World by Freedom House ranks countries as Free (electoral democracy), Partly Free, and Not Free. It does this by adding the combined scores for answers on political rights (electoral process, political pluralism, participation, and functioning of government) and civil liberties (freedom of expression and belief, association and organisational rights, rule of law, personal autonomy, and individual rights). Countries that meet certain minimum standards for political rights and civil liberties are designated 'electoral democracies'. Freedom House notes that a 'liberal democracy' requires a more robust observance of democratic ideals and a wider range of civil liberties.

Measuring democracy in an index has some complexities in relation to executive constraints, inequality of political power, political financing of the media, etc. However, indexes still provide a good proxy to distinguish between countries like Saudi Arabia, China, Russia, and Venezuela from Norway or Denmark.

An implication of the analysis of this report is that the best way to establish a country's potential for prosperity is to assess its national cohesion, state capacity, the rule of law, democratic accountability, and the distribution of political power within the society.

Transitions to a Full Liberal Democracy

In the four successful transitions, the governments have moved from dictatorship to full liberal democracy with developed political institutions and the enjoyment of freedoms and civil liberties. These countries benefit from a relatively strong state capacity while the rule of law and democratic accountability constrain the action of rulers and the state, helping to limit political rent-seeking (see Table 1).*

* We have measured these countries' transitions based on the data of the Legatum Prosperity Index, EIU Democracy Index, and Freedom in the World report by Freedom House.

In addition, some of these countries have improved their government effectiveness, economic diversity, and Gini coefficient (see Table 2).

Table 1: Full Liberal Democracy Countries: Key Features

	Years of democratic transition	Democracy Index EIU ²	Free/Not Free (Freedom House) ³	Rule of Law (Ranking) WJP ⁴	Legatum Institute Inclusive Society ⁵	Prosperity Index 2021 Institutional Trust ⁶
Korea (Rep)	1988, 1998	8.16	83 Free	0.71 (25 th /140)	29 th /167	111 th /167
Uruguay	1985, 2005	8.85	97 Free	0.76 (18 th /140)	37 th /167	24 th /167
Portugal	1976, 1986	7.82*	95 Free	0.78 (16 th /140)	28 th /167	49 th /167
Estonia	1991, 2004	7.84*	94 Free	0.83 (9 th /140)	17 th /167	41 st /167

* Portugal and Estonia are marginally below the score for full liberal democracy (8). However, they score strongly in the Freedom House rankings for both political rights and civil liberties.⁷ 25th/140 means that the country ranked 25th out of 140 countries.

Korea's success has been based on the political development of its institutions, rather than an 'economic miracle'. The key to understanding Korea's prosperity is through critical key political changes, such as the US-supported land reform that started in 1950. This land reform facilitated the education of low-income groups and their entry into the civil service and, ultimately, the middle class. This social mobilisation is a key factor in explaining the transition from dictatorship to full liberal democracy.

Korea's transition to incomplete democracy occurred in 1988, with elections that followed the change in the constitution; however, most of the same leaders and elites remained. The transition to full liberal democracy occurred 10 years later in 1998, with the election of the opposition, in the aftermath of the Asian financial crisis. The opposition had formed the basis of the pro-democracy movement during the dictatorship era and included an alliance of those previously excluded from political power. This reformist government implemented policies to reduce rent-seeking, weakening clientelist networks (particularly in relation to politically connected businesses-chaebols), promoting transparency, and expanding welfare. These ideas were well received electorally, and other parties largely maintained these policies.

As a result, regional cleavages weakened and elections become more based on programmes. Korea has a highly effective government system, a very diverse economy, and a low Gini coefficient⁸ – illustrating how the political transformation has been complemented by economic changes supporting broad-based prosperity (see Table 2).

Uruguay's transition to democracy started at the end of 12 years of military rule in 1985. The reformist opposition won power amid an economic crisis in 2005 and was then re-elected in 2010 and 2015. It represented new groups with a platform to reduce rent-seeking, increase social spending, and provide greater social welfare for low-income groups. These policies were sufficiently embedded and other parties have largely accepted them. Hence, 2005 can be seen as the time when the 'second democratisation' started.

Following the illness of its long-time dictator Salazar, Portugal faced political instability. In 1975, it experienced coups and counter-coups and, by November of that year, the Group of Nine, an anti-communist military faction, had established control and stability. It held elections in the following year, which were won by the Socialist Party, thereby beginning the country's democratic transition. Subsequently, centre-left and centre-right coalitions brought political stability. The process of European Community accession, completed in 1986, also supported the transition to a full liberal democracy. Portugal now has a diverse economy and relatively low inequality.

Following the disintegration of the Soviet Union, Estonia declared independence in August 1991. The following year a democratic constitution was adopted, and elections were held in September 1992. The political system stabilised under a centre-right coalition and the government pursued market

liberalisation and transparent privatisation. Strong social cohesion (except for the ethnic Russian population, which was largely excluded from political decisions) and a desire to join the European Community provided a strong commitment to reform the economy and reduce rent-seeking. A strong party system was established, along with a deliberate programme of building institutions from scratch – notably a complete overhaul of the judiciary. Estonia joined the EU in 2004, marking its transition to a full liberal democracy. Estonia has developed a strong state capacity (especially digital).

Table 2: Full Liberal Democracy Countries: Key Economic Features

	Government Effectiveness ⁹		Economic Complexity ¹⁰		Gini Coefficient ¹¹	
	2010	2020	2000	2020		2020
Korea (Rep)	0.47 (1996)	1.41 (2021)	1.25 (20 th /90)	1.95 (4 th /127)	31.7 (2006)	31.4 (2016)
Uruguay	0.63 (70.8)	0.78 (75)	0.19 (51 st /90)	-0.07 (65 th /127)	45.9 (2006)	40.2 (2020)
Portugal	1.27 (1996)	0.99 (2021)	0.62 (33 rd /90)	0.76 (34 th /127)	38.8 (2003)	32.8 (2019)
Estonia	0.61 (1996)	1.38 (2021)	0.35 (41 st /90)	0.99 (27 th /127)	37.2 (2003)	30.8 (2020)

Transitions to an Incomplete Democracy

Four countries in our case studies – Chile, Peru, Indonesia, and Ghana – transitioned from dictatorship to incomplete democracy. These countries have a relatively good record of electoral democracy but cannot yet be classified as full liberal democracies. In general, they rank lower on the measures of democracy than the group of liberal democracies (see Table 3). Chile is the exception, but a recent political crisis and mass protests are an indication that the country has not yet achieved full liberal democracy status.

Table 3: Incomplete Liberal Democracy Countries: Key Institutional Features

	Year of democratic transition	Democracy Index EIU ¹²	Free/Not Free (Freedom House) ¹³	Rule of Law (Ranking) WJP ¹⁴	Legatum Institute Inclusive Society ¹⁵	Prosperity Index 2021 Institutional Trust ¹⁶
Chile	1990	7.92*	94 free	0.72 (24 th /140)	38 th /167	153 rd /167
Peru	2001	6.09	72 free	0.60 (87 th /140)	61 st /167	165 th /167
Indonesia	1999	6.71	59 partly free	0.67 (31 st /140)	62 nd /167	24 th /167
Ghana	1993	6.50	80 free	0.66 (34 th /140)	99 th /167	79 th /167

* Chile could have classified as a full liberal democracy, except for the recent political crisis that led to generalised protests, polarisation, and political uncertainty.

The Pinochet dictatorship in Chile weakened in October 1988 when it lost a referendum on a second term. In the negotiated democratic transition, the 1989 elections gave a Christian Democrat-led coalition a majority. However, the dictatorship’s elites retained much political and economic power. The new governments, including socialist ones, did not significantly change economic structures (maintaining reliance on natural resources), reduce rent-seeking, or increase social spending/welfare. Economic disparities have persisted, resulting in weak social cohesion. Most recently, this polarisation has resulted in the election of a radical left-wing government.

Peru's dictator Fujimori resigned in November 2002 and a caretaker government was established. However, election results have been co-opted by the strong influence of business elites initially formed during the dictatorship. Governments have been supported by a narrow coalition of supporters (the business elite). While the country's macroeconomic record has been good, the benefits of economic growth have been captured by a narrow group. Peru has had a poor track record on social spending and rural communities have felt left behind. Consequently, ethnic and political polarisation resulted in the election of a radical left-wing government in 2021.

Indonesia's transition to democracy followed the 1998 fall of the New Order and the removal of 77-year-old President Suharto. This transition was triggered by the country's economic crisis following the Asian financial crisis and IMF intervention. Successive democratic governments have carried out significant reforms of political and governmental structures, including radical decentralisation. There have been limited changes in economic structure and in reducing rent-seeking.

Ghana's transition to democracy was triggered by the agreement of the dictatorship of Jerry Rawlings to a new constitution and elections in 1992, following some challenges to his regime (see Box in Section 2). This enabled Rawlings to win the presidency in two consecutive elections and rule for eight years after the transition. However, the transition to an electoral democracy has intensified ethnic and political competition and, in the absence of institutionalised and strong political parties, may have resulted in increased rent-seeking. Ghana has developed a stable two-party system, but it is based around rent-seeking, rather than accountability. Elections reflect ethnic cleavages and are used to gain access to state resources to reward essential supporters. There has been no meaningful reduction in rent-seeking and no change in economic structure. Ghana is the least diverse economy of the cases studied.

Table 4: Incomplete Liberal Democracy Countries: Key Economic Features

	Government Effectiveness ¹⁷		Economic Complexity ¹⁸		Gini Coefficient ¹⁹	
	2010	2020	2000	2020		2020
Chile	1.34 (1996)	0.63 (2021)	-0.01 (66 th /90)	-0.24 (76 th /127)	57.2 (1990)	44.9 (2020)
Peru	-0.19 (47.9)	-0.24 (42.3)	-0.39 (79 th /90)	-0.83 (105 th /127)	51.3 (2001)	43.8 (2020)
Indonesia	-0.71	0.38	0.13 (56 th /90)	0.63 (41 st /127)	33.5 (1984)	37.9 (2021)
Ghana	-0.12 (1996)	-0.15 (2021)	-1.09 (118 th /90)	-1.02 (117 th /127)	38.4 (1991)	43.5 (2016)

Notes

- 1 The Economic Intelligence Unit, *The EIU Democracy Index 2021*, <https://www.eiu.com/n/democracy-index-2021-less-than-half-the-world-lives-in-a-democracy/> (2021); Freedom House, *Freedom in the World 2022*, <https://freedomhouse.org/report/freedom-world/2022/global-expansion-authoritarian-rule> (2022).
- 2 The Economic Intelligence Unit, *Democracy Index 2021, China Challenge*, (2021).
- 3 Freedom House, *Countries and Territories*, <https://freedomhouse.org/countries/freedom-world/scores> (2022).
- 4 World Justice Project, *Rule of Law Index*, <https://worldjusticeproject.org/rule-of-law-index/global/2022> (2022).
- 5 The Legatum Institute, *The Legatum Prosperity Index 2021*, <https://www.prosperity.com/rankings> (2021).
- 6 Ibid.
- 7 Freedom House, *Countries and Territories*, <https://freedomhouse.org/countries/freedom-world/scores> (2022).
- 8 World Bank Data, *Gini Index – Korea Rep.* <https://data.worldbank.org/indicator/SI.POV.GINI?locations=KR>, (2016).
- 9 World Bank, *Worldwide Governance Indicators*, <https://info.worldbank.org/governance/wgi/Home/Reports> (2022).
- 10 The Observatory of Economic Complexity, *The Economic Complexity Index (ECI)*, <https://oec.world/en/rankings/eci/hs6/hs96> (2022).
- 11 World Bank, *Gini Index: Korea Rep, Uruguay, Portugal, Estonia*, <https://data.worldbank.org/indicator/SI.POV.GINI?locations=KR-UY-PT-EE> (2022).
- 12 The Economic Intelligence Unit, *Democracy Index 2021, China Challenge*, (2021).
- 13 Freedom House, *Countries and Territories*, <https://freedomhouse.org/countries/freedom-world/scores> (2022).
- 14 World Justice Project, *Rule of Law Index*, <https://worldjusticeproject.org/rule-of-law-index/global/2022> (2022).
- 15 The Legatum Institute, *The Legatum Prosperity Index 2021*, <https://www.prosperity.com/rankings> (2021).
- 16 Ibid.
- 17 World Bank, *Worldwide Governance Indicators*, <https://info.worldbank.org/governance/wgi/Home/Reports> (2022).
- 18 The Observatory of Economic Complexity, *The Economic Complexity Index (ECI)*, <https://oec.world/en/rankings/eci/hs6/hs96> (2022).
- 19 World Bank, *Gini Index: Chile, Peru, Indonesia, Ghana*, <https://data.worldbank.org/indicator/SI.POV.GINI?locations=CL-PE-ID-GH> (2022).



Estonians celebrating 100 years of Estonian Independence in the old town of Tallinn in 2018. Credit: Uskarp.

3. The Ending of Dictatorship

The transition from dictatorship to democracy starts with the end of the dictatorship and the installation of a regime through democratic elections. In most of our country cases, this has resulted in a change of political leader. However, the focus of this report is on the change in political system.

The end of the dictatorship takes different forms in our eight case studies. Among the transitions to full liberal democracy, it included a military coup (Portugal), the end of military occupation (Estonia), and negotiated transitions (Korea and Uruguay). In the other transitions, the end of the dictatorship also included negotiated transitions (Chile, Indonesia, and Ghana), and the resignation of the dictator from abroad (Peru). In only one of the eight cases did the former dictator become the new democratic leader (President Rawlings of Ghana in 1992).

Analysing the End of Dictatorships

Political transitions depend on the shifting balance of power between the government and the opposition. Dictators do not choose to leave power; they do so only when they are (or foresee themselves to be) unable to reward their essential supporters. This can happen because of a lack of resources, rewards that are no longer credible, etc. Losing power could mean that rent-seeking and special privileges are either lost to another political coalition or could be curtailed by a reformist leader. In both cases, this may result in a loss of not only political but also economic power. Incumbent elites will, therefore, do everything in their capacity not to lose political power.

Economic Crisis as a Trigger

In some cases, an economic crisis contributes to a shift in the balance of power between political groups (Korea and Indonesia). Good economic management is key for dictatorships to maintain power because most of the dictatorships in our case studies (the exception being Estonia) originally came to power partly to end chaotic economic management. These dictators were tolerated partly because they offered a stable economy. An economic crisis that puts the economic competence of the incumbent government in doubt is, therefore, the best opportunity for reformist governments to win power.

Moreover, an economic crisis reduces a government's income and affects its ability to reward its coalition of essential supporters. A financial crisis was critical to the change of governments in Korea (1998) and Indonesia and Uruguay (2005).

Waning Power

In all our case studies, the end of the dictatorship took place once the peak of its political power had passed. The dictators of Portugal and Indonesia had been in power for 36 and 30 years, respectively. Their health and old age accelerated the end of their regimes. Resentment about the costs of the colonial wars in Portugal and widespread corruption under Suharto in Indonesia contributed to the weakening of these regimes. Moreover, the dictators' old age made it difficult for their essential supporters to believe that they would be rewarded in the future – despite the dictators' exceptional expertise in keeping their coalition of essential supporters loyal in the past.

The sense of waning power is why it was easier for dictators to concede democracy to the opposition, though in most cases they were able to retain substantial political power (Korea, Uruguay, Chile, Peru, and Indonesia). In the case of Ghana, Jerry Rawlings was even able to transition himself into a democratic president. Conceding democracy became the best way for Rawlings to keep power for a further eight years.

The situation was different in the cases of Portugal and Estonia, where the former elites were marginalised and unable to continue to exercise economic and political control. It is partly for this reason that the transition to full liberal democracy and reducing political rent-seeking was much simpler in these countries.

Ghana: The End of a Dictatorship from a Position of Strength

Dictator Jerry Rawlings's coalition of essential supporters was still relatively strong before he made his decision to concede democracy. Rawlings understood that his regime would always face strong opposition from the Ashanti ethnic group and the country's business groups. However, international actors had been part of his group of essential supporters since the start of his dictatorship in 1981 – initially as a Marxist. In these early years, Rawlings became one of the few and best African disciples of the IMF/WB orthodox adjustment programmes. He was able to stabilise the Ghanaian economy and improve incomes for small farmers, particularly in the north of the country. In this context, Rawlings also experimented with non-partisan local democracy, testing his electoral strength.

Nevertheless, Rawlings realised that IMF/WB support was likely to change given the West's repositioning in support of democratic elections. In this context, he decided that the best way to continue to exercise political power for some time was by conceding electoral democracy. In this way, he won two elections and was able to stay in power for a further eight years. Rawlings conceded democracy with some confidence that he would stay in power because he had received feedback from local elections. Unlike our other case studies, Rawlings conceded the political transition from a position of strength.

Influence of Foreign Actors

In some of our case countries, the change in the balance of power between political groups occurred partly as a result of foreign actors voicing support for democratic elections (Ghana, Korea, Uruguay, Chile, Peru, and Indonesia). Foreign actors played a stronger role in countries where they had become part of the group of essential supporters of the dictatorship. They also sometimes supported installation of the dictatorship (Indonesia and Chile and, to some degree, Peru and Ghana).

Financial support (foreign aid, bailouts) from the WB/IMF to the dictatorships in our country cases strengthened these dictatorships and allowed them to stay in power longer. Equivalently, the threat of the end of this financial support facilitated the transition to democracy (Ghana and Indonesia).

An overall lesson from the end of dictatorships is that, in the context of a fragile political situation and some parity of political power between the dictatorship and the opposition, support from international actors can make a difference for the transition.

Organised and Strong Opposition

The likelihood of a successful end of a dictatorship is greater if the opposition has put together a strong coalition of essential supporters that can defeat the incumbent. These coalitions are most powerful when they include the middle classes, working classes, and new progressive business interests.

The specific factors that changed the balance of power (essential supporters) in each of our country cases were different. However, in all cases, there was a strong opposition and sometimes strong mobilisation by social groups such as labour unions or students (Korea and Indonesia). In the cases of Portugal and Estonia, insurgent groups took over control of the state.

A strong opposition to the dictatorship is a key factor in determining the transition because it demonstrates the resilience of opposition in the face of severe repression. In some cases, the opposition has been strong because of national identity (Estonian citizens against Soviet occupation) or because of ethnic opposition (Ashanti opposition to the Rawlings dictatorship). Korea and Indonesia had very

strong student movements, while opposition groups in Uruguay and Chile were able to win referendums organised by the dictatorship.

Factors that unified the opposition included the longevity of the dictatorships (Portugal and Indonesia), a strong desire for political rights (especially in Korea, Uruguay, and Chile), or the desire to end extreme levels of nepotism and corruption (Indonesia and Peru).

Conclusion

A dictatorship ends when the incumbent regime is unable to continue to reward its essential supporters (for example, because of an economic crisis). The end of a dictatorship opens the door for democratic elections in an initial 'democratisation process'.

However, in most cases, the end of a dictatorship results at best in a transition to an electoral democracy, where the rent-seeking and patrimonial nature of the state remains largely unchanged. The new political system offers elections (of different degrees of fairness and freedom) and some civil liberties. However, the big prize of an open society and economy provided by a full liberal democracy is not reached.



Uruguayans at assumption parade of Lacalle Pou Herrera as new President of Uruguay.
Credit: DFCL Prints.

4. Transition to Full Liberal Democracy

In what follows we show how reformist political leaders won and maintained power and how they successfully confronted vested interests to permit a transition to full liberal democracy. We do this for two distinct clusters of countries: on the one hand, Uruguay and Korea and, on the other, Portugal and Estonia. The reason for this is that their political transitions have been substantially different.

Portugal and Estonia experienced a 'revolution' type of event in which the former rent-seeking elites were largely marginalised. Additionally, their accession to the European Community/EU played a central role in influencing the transition to full liberal democracy. By contrast, in Uruguay and, particularly, Korea, the former elites retained significant political power after the democratic transition. The role of foreign actors was also more limited than in Portugal and Estonia.

Second Democratisation

In our case studies on the transition to full liberal democracy, democratic elections have provided political power to groups that wanted to achieve a 'second democratisation', that is, a change not merely to an electoral democracy, but to a full liberal democracy, where political rent-seeking is significantly reduced and equal political access and the rule of law are provided for all.

It took 10 years in Korea and 20 years in Uruguay for reformist governments to win power, leading to a second democratic transformation from partial democracies to full democracies.

In Korea, active citizen mobilisation has become another social tool for monitoring the behaviour of political leaders and parties. The combination of elections and popular mobilisation has been effective in supporting moves towards full liberal democracy – for example, in relation to the country's presidential impeachment processes. Popular mobilisation has also been used to provide additional checks on government probity as, for example, in relation to the popular demonstrations for the impeachment of a reformist president and supporting the impeachment of President Park.

In these cases, there was no need for a change of government because the post-dictatorship elite was committed to reforms to reduce rent-seeking and open the economy. This reflected both ideological consensus and the need to meet the conditions and policies to join the European Community/EU. In the cases of Portugal and Estonia, the transition was helped by European Community/EU expansion – a successful 'export' of democracy by the EU.

In these cases, the old, authoritarian elites were marginalised during the democratic takeover. The new elites and citizens abandoned the social structures of communism/socialism and leftist isolationism. In Portugal, the Socialist Party was keen to transform the old economy and society through liberalisation. In Estonia, the new elites had been prepared ideologically for a radical pro-market economy and to adopt OECD best practice templates for non-rent-seeking institutions.

Social Cohesion

Korean and Uruguayan leaders have demonstrated their commitment to reaching agreements with other political parties. In both countries, the transition from an incomplete democracy to a full liberal democracy ('second democratisation') has been possible partly because it was carried out by leaders who favoured compromise.

In Uruguay, policies are often adopted through consensus, making them more consistent over time. As one of his initial acts, President Vázquez chose as his Economy Minister an economist who reassured the markets. President Mujica was also able to moderate his political discourse once in power, ruling out revolutionary ventures and calling for compromises with opposition parties.

The Frente Amplio (Broad Front) coalition produced a moderate and realistic programme that appealed to both the working classes and some of the traditional elite – a 'broad catch-all coalition'. This was needed if the Frente Amplio was to break into the prevailing two-party system. The Frente Amplio governments sought to negotiate and reach a consensus on many of their policies, even if this meant delays in implementing their programme as, for example, on renewable energy investments.¹

In Korea, reformist politicians also seek compromise. Kim Jae-jung allied himself with a politician who had masterminded the 1961 military coup while candidate Roh allied himself for the elections with the son of one of the largest chaebols.² After his successful election, Kim Dae-jung urged the former president to amnesty two former dictators, even though he had himself been put on death row by one of them.

The relatively smooth transitions to full liberal democracy in Portugal (after the initial convulsion of the coup) and Estonia were possible because of their leaders' and citizens' consensus on adopting the liberal democratic principles of the European Community/EU.

Both countries had populations with a strong anti-authoritarian ideology, a result of the long Salazar dictatorship (40 years) and the Soviet occupation (50 years). This has contributed to the consolidation of a relatively stable political system through coalitions and agreements among centrist parties. In both Portugal and Estonia, political actors learned to play the democratic game, establishing coalitions, targeting the median voter and competing with other parties based on programmatic policy proposals by offering public goods.

With consensus political coalitions, Portugal and Estonia delivered the changes needed to achieve full liberal democracy. The new 'revolutionaries' used the political system to form broad political coalitions (coalitions of the left and right in Portugal, coalitions of the right in Estonia) to support a reformist platform to weaken political rent-seeking and open the economy. This was a result of the demands of their own citizens, but also required for European Community/EU membership.

In Portugal, transformation was possible due to coalitions between the Socialist Party and parties on the centre-right. For example, their 1982 agreement paved the way to changing the role of the military and the president and, in 1989, facilitated privatisation and the elimination of Marxist language from the Constitution (Article 83).

Strong political parties* with secure political bases provided support for reforms and the consolidation of democracy, despite Portugal's limited experience of democracy and limited literacy compared to other countries in Europe. The Constitution of 1976 also acted as a compact amongst political parties, with the presidency playing a role of conciliation and identifying weaknesses in government, as in the Open Presidency initiative.

Without strong political institutions, Estonia was still able to transition rapidly to a full liberal democracy because of its very strong social cohesion. There was a very clear distinction between 'us' and 'them' (Soviets and communism) and the priority was to create distance between Estonia and Russia. In Estonia, politicians from different parties worked together to implement a pro-market, pro-freedom vision, making policy reversals less likely.

The changes in the political order in Estonia were also possible because Estonia's small and dynamic political system was populated by idealistic first-generation politicians and civil servants who worked together. Moreover, following the Scandinavian model, there was a "small power distance", civil society had good access to the parliament, and policy-making, and discussions in parliament included all groups. Civil society capacity was increased through international support, and free media supported democratic developments.

* Partly a result of the use of closed lists for parliamentary elections. This strengthens the hands of party leaders.

Strengthen the Rule of Law

Countries that have succeeded in achieving full liberal democracy worked hard to consolidate and strengthen the rule of law. In all these countries, the transition process also required the military to become subordinated to the rule of law.

After the end of their dictatorships, both Uruguay and Korea continued strengthening their rule of law institutions, making them more autonomous from the executive. In Korea, given the high level of corruption in politics, rule of law institutions have had to play a large role in controlling rent-seeking interests. The Constitutional Court has also had to play a very active role in politics through the impeachment of presidents. Citizens have mobilised in support of these processes.

In Portugal and Estonia, a strong anti-authoritarian ideology and cohesion on joining the European Community/EU facilitated a commitment to build or strengthen key political institutions to transition to full liberal democracy.

Both countries strengthened their judiciary as part of the process of joining the European Community/EU. Estonia's indicators show a high rule of law rating even though it built its judiciary from scratch. Estonia wanted to converge rapidly with Nordic countries and, as a result, established the rule of law, strong property rights (German property rights processes),* and an open market economy with foreign investments, also building them from scratch.† Again, this was done because of Estonia's strong national consensus on pro-market policies.

Political Accountability

This group of successful countries all experienced dictatorships and subsequently developed a strong anti-authoritarian ideology. This has contributed to cohesion and, in some cases, strong social mobilisation against dictatorships. Our case studies all benefitted from a continuity of elections that provided experience and tested both political parties and voters.

Uruguay began its democratic transition to full liberal democracy with better political institutions and social cohesion than Peru or Ghana. It has one of Latin America's most continuous democratic traditions.

In both Korea and Uruguay, the former authoritarian elites retained their political and economic power after the transition to electoral democracy. In many ways, the nature of the political system remained the same because, although there were elections and greater civil liberties, the political system continued to rely on political rent-seeking and on a regime supported by a small group of essential supporters. During this initial period, some reforms strengthened political accountability as, for example, in Uruguay through reforms that streamlined the party system and, in Korea, in 1993, reforms that brought the military under civilian control.

In both these countries, there was a strong ideological consensus in favour of markets, democracy, and transparency, as well as accession to the European Community/EU. This common national unity of citizens and elites, together with the absence of an old elite to block reforms, facilitated the transition. In addition, Portugal also experienced instability and the risk of a communist takeover.

In both Portugal and Estonia, the political system responded efficiently to the challenge by learning how to play the electoral game: that is, how to negotiate solutions to provide relative economic stability and foster loyalty in the political system. Voters also learned how to exercise their vote strategically to support their own interests, rather than voting based on ethnicity, religion, or regionalism. The state developed stronger capabilities, helping to make the political system more responsive to citizens' demands. In both countries, the political parties worked almost in coalition to support the continuity of key policies.

* Estonia also adopted the policy of restitution of property confiscated by the Soviet occupation.

† The economy attracted Scandinavian banks, French utility companies, and many other foreign investments.

Political Infrastructure

Reformist parties introduced changes to make access to the political system more equal, strengthening institutions that support an open society and economy. In our more successful case studies, the political system has evolved and strengthened after years of continuity. In all these countries, there is awareness of how the political system is key to delivering good governance.

Political parties and coalition negotiations in Uruguay, Portugal, and Estonia have been at the core of producing policies to reduce rent-seeking and expand social spending to support national cohesiveness. Political parties are strong in these countries, though less durable in Korea.

Portugal and Estonia introduced bans and limits on private political financing and provide direct public funding for political parties.³

Reforms in Korea and Uruguay included inclusive electoral reforms, support for internal competition in political parties, regulation of the financing of political parties, and measures to secure the judiciary's independence from the executive, etc. Similar reforms were also implemented in Portugal and Estonia.

Uruguay introduced bans and limits on private political financing and provides direct public funding for political parties. Korea has similar regulation, but a large share of campaign financing comes from private donations, and there are still strong links between politicians and moneyed interests.⁴

The Estonian Political Parties Act of 1994 included restrictions on political funding and reforms were also introduced in 2004 and 2015. These reforms resulted in stronger political parties, stronger coalitions with key parties playing strategic roles, and greater political stability. This has been particularly the case since 2000.

Programmatic Political Platforms

In the successful transitions to full liberal democracy, reformist governments won power thanks to a compelling vision of an open society with fewer privileges. This was incorporated into their political platform, based on a clear vision and policies to implement this vision.

Political parties in Korea and Uruguay have been electorally successful with programmatic political platforms. For this, it is necessary for the middle and working classes to demand a change in politics to reduce rent-seeking political interests, as happened especially in Korea and Uruguay. The dictatorships in Korea and Uruguay had already indirectly contributed to strengthened ideologies in both countries.

In Korea and Uruguay, political platforms attracted new groups of voters. In Korea, the focus was on the privileges of politically connected businesses (chaebols) and, in Uruguay, on transparency, more competition, and fairer taxes. Voters had also experienced electoral democracy for many years, so were ready to vote strategically and reward ideologically aligned parties, rather than votes being driven by ethnic, regional, or religious cleavages.* The system works best in Uruguay with its strong party system and where citizens vote based on ideology.

In Portugal and Estonia, programmatic political platforms were all based on the need to implement policies to gain access to the European Community/EU. These platforms were widely accepted by citizens.

* In Korea, in 2002-2003, this resulted in the election of a left-wing politician, President Roh Moo-hyun, originally from the usually conservative south of the country.

Key Element of the Transition: Reduce Rent-seeking

In countries like Korea, Uruguay, and Portugal, economic crises and IMF programmes have resulted in significant changes in the economic structure and a reduction in rent-seeking. However, these changes require political leadership and are difficult to achieve when both dominant parties benefit from political rent-seeking.

In the cases of Korea and Uruguay, IMF programmes helped reformist governments to introduce policies that reduced rent-seeking, without creating a backlash from the political and economic elites.

In Korea, the government did not use the IMF programme simply to stabilise the economy in the context of the Asian financial crisis, but also to introduce structural reforms to weaken the power of the normally untouchable chaebols.*

In Uruguay, the IMF/WB programme supported tax and financial sector reforms to reduce rent-seeking and open the economy to competition. Uruguay's tax reforms increased progressivity and targeted tax evasion, and personal income tax as a percentage of GDP also increased.

More generally, reforms to increase transparency and combat corruption have also been supported by popular mobilisations in Korea as, for example, in the case of the (ultimately failed) impeachment of President Roh Moo-hyun and the successful impeachment and jailing of President Park Geun-hye.

Reforming the economic structure of the country and reducing rent-seeking contributed to the diversification of the economy. Indicators suggest that Korea has been more successful than Uruguay in building a more complex and diversified economy.†

In both Portugal and Estonia, the transition to democracy resulted in the marginalisation of the previous elites. As a result, resistance to policies that reduced rent-seeking and monopolies was much weaker in these countries. Moreover, in Portugal and Estonia, citizens and politicians were united in their desire to implement rent-seeking reforms, given their desire to access the benefits of European Community/EU membership (especially the single market and structural funds).

In Portugal, after an initial period of high political instability and military coups, the political process stabilised. The Communist Party was marginalised after the 1976 elections and a consensus was cemented between the Socialist Party and the parties of the centre-right.

These political parties were aligned in their desire to join the European Community/EU and to implement the policies required for entry, including policies that would open the economy to competition, reduce rent-seeking, etc. The Socialist Party was particularly focused on these modernisation gains. The political process provided continuity in pursuing these policies across different governments. State capacity, the rule of law, and democratic accountability institutions were also supported by the accession process.‡

In Estonia, the regime also marginalised former elites, and the country elected pro-market liberal-democrat political leaders. In this case, the adoption of accession policies was speedy.§

The accession process allowed Estonia to quickly adopt and implement legislation that supported a market, non-clientelist economy and some conciliatory processes (including government consultation processes with different interest groups).

* Chaebols are Korean, family-owned business conglomerates. Examples of the above reforms include the introduction of consolidated financial statements and the banning of mutual payment guarantees within sister companies of the chaebols.

† See Table 2 in Section 2.

‡ The adoption of a US-influenced constitution, judiciary, and democratic accountability institutions in Germany and Japan after World War II has some similarities to the process of EC/EU accession.

§ This process was accompanied by the political marginalisation of the ethnic Russian population.

Estonia decided to build institutions from scratch, rather than reform those that existed, establishing, for example, a new independent judiciary and a professional, merit-based civil service protected from political clientelism.⁵ The 1996 Civil Service Act sought to eliminate the patronage system through merit-based recruitment and processes. The 2012 Civil Service Act tried but failed to change the low status of the civil service and poor remunerations. Still, recruitment in the civil service in Estonia remains one of the least politicised processes in Europe.

Estonian civil service delivery and the reduction of rent-seeking have also depended on e-government. The Estonian civil service became a pioneer in providing citizens with access to government services in a way that prioritises customer experience and transparency. This was also seen as a way to reduce rent-seeking, both by making government services transparent to all (avoiding an interface with a public employee) and through e-procurement. Pragmatic citizen-centric digital government was able to respond to citizens' demand for participation and transparency.

Increasing Social Spending and Social Welfare: Rewards for Essential Supporters

In Uruguay and Korea, reformist governments rewarded their essential supporters by increasing social expenditure and social welfare and raising wages. In these countries, this was possible because reformist parties became more politically competitive, winning elections on platforms of reducing rent-seeking and special privileges while increasing the rewards for supporters through social welfare, social spending, and higher wages.

In 2005, Uruguay introduced the National Plan for the National Emergency Service (PANES), a health system with public and private providers, and a public and private housing programme. The welfare state expanded, partly through new targeted programmes: cash transfers, universal family allowances, and improvements in health care. Labour policies, including salary councils, favoured the working class and supported wage increases. These policies increased the incomes of the poor. Uruguay has been relatively successful in reducing income inequality since 2005.

In Korea, until 1997, the social welfare system was underdeveloped. However, this started to change with the government extending the coverage of the social welfare system and the benefits of the major state-administered social insurance schemes.⁶ The reformist party first fostered the idea of a modern welfare state under its first president in 1998. The two reformist governments expanded social welfare significantly, though the country's welfare system still lags behind welfare ratings for the OECD. In 2012, support for welfare was strong, so much so that even the conservative candidate, Park Geun-hye, included the expansion of welfare programmes in her platform. However, more recently, there has been greater resistance to increases in the welfare system, due to concerns about higher taxation.⁷

The process of increasing social spending and social welfare in Portugal and Estonia took place partly because of accession to the European Community/EU. Portugal increased social spending and welfare as part of EC accession and with EC funds. Polls suggest that Portuguese citizens see this as one of the most important legacies of the 25 April Revolution. Estonia's increase in social spending and welfare was more limited, but EU programmes and funding also contributed.

Embedding the Reform by Managing the Economy Cautiously

Dictatorships in all these countries had come about partly to overcome economic mismanagement. Hence, reformist governments needed to demonstrate that they could also achieve/maintain economic stability and avoid stagnation and high inflation. The approach of governing in a way that delivers economic stability and credibility (to avoid elite backlash), with policies that reduce rent-seeking and special privileges (to modernise the economy), was adopted in Korea and Uruguay in the face of electoral opposition while, in Portugal and Estonia, it was adopted in a more consensual way as part of the European Community/EU accession process.

The challenge for the reformist governments of Korea and Uruguay was to introduce policies to reduce political rent-seeking and open the economy to greater competition while, at the same time, maintaining stability and the confidence of the private sector. These countries' reformist governments gained political power partly because of the economic crisis, so they needed to ensure competent management of the economy.*

They were successful in winning elections (in Korea, twice as well as ensuring the impeachment of the conservative President Park in 2016, and, in Uruguay, three consecutive times).

Korea's and Uruguay's economic growth allowed these countries to have a relatively strong state and some rule of law. Korea started with a strong state that was strengthened during the transition period while Estonia was successful in building state capacities from scratch.

The reformist governments of Korea and Uruguay provided signals to the financial markets that they would pursue prudent economic management and policies, including the continuation of IMF support and policies from the previous government. This has been critical in reassuring business elites. Korea has achieved a substantial increase in government effectiveness in the past 25 years, unlike Uruguay.

The Socialist Party in Portugal has often been in charge of implementing austerity plans, as in 1976-1978 and, in 1983, to meet European Community accession conditions. Socialist Party leader Soares was an enthusiastic supporter of joining the European Community from the beginning because he saw it as a strategic way to (a) support democracy (only democratic countries parties were able to join the EC†) and (b) "modernise outdated economic structures". In 1983, the Socialist Party also implemented an IMF adjustment programme.

The Portuguese Socialist Party led efforts to reform the economy after 2011, as well as the EU bailout and austerity programme run by the Troika. However, the Supreme Court blocked a number of government austerity policies. The most recent adjustment programme appears successful. Portugal's austerity and retrenchment programme has been much more effective than that of Greece. This reflects Portugal's lower levels of clientelism and the early agreement among its political parties. In Portugal, the mainstream parties largely retained their support base during the economic crisis. The support of Portuguese political parties did not depend on patronage related to control of public sector employment.

In Estonia, the priority was to marginalise Soviet elites and their economic model by quickly stabilising the economy, introducing a new currency, opening capital flows, implementing an innovative flat taxation system, and transparently privatising the economy – unlike privatisations in Russia that favoured politically-connected cronies.

Leveraging External Support to Reduce Political Rent-seeking

Korea has managed to reduce rent-seeking (chaebol reforms), as have Uruguay (income tax reforms) and Portugal (open economy, trade, and banks), partly as a result of support from IMF programmes. In Portugal and Estonia, key reforms took place through the European Community/EU accession process. Estonia adopted the wholesale opening of the economy, responding to the strong ideology and conviction of its new governments, embracing the Euro and e-government, etc.

In Korea and Uruguay, reformist governments were able to gain economic credibility by implementing IMF economic programmes that brought economic stability. However, they also used these programmes to weaken political rent-seeking. Confidence was maintained by establishing agreements and pacts with conservative parties.

* Uruguay had experienced a major economic crisis starting in 2002.

† Even the Salazar dictatorship had followed with interest the development of the EC. Unlike Spain, Portugal had also benefitted from access to the Marshall Plan since 1949. Negotiations to join the EC were prolonged and started in 1978, also at the request of Soares.

The EU provided clear templates and timelines for implementing reform policies that would reduce rent-seeking as well as large incentives for the introduction of reforms (access to the single market, foreign investment, and specific funds).

In Portugal, EC accession was possible because the Socialist Party and a coalition of supporting parties imposed austerity in defiance of pro-communist labour unions. “This government will be austere, uncompromising and unpopular if that is what it takes to secure recovery.” “Building socialism means building the economy.”⁸ The centre-left party implemented reforms to join the EC in the middle of an economic crisis. In 1983, the Socialist Party introduced both an IMF stabilisation programme and the reforms needed to gain entry to the European Community (including trade and financial liberalisation). These policies opened the way to large inflows to finance public investment and capital formation. However, in the 1990s, these policies also resulted in large and unsustainable private indebtedness, credit-fuelled growth of consumer spending, and investment in non-tradables (construction, retail, utilities) that made Portuguese exports less competitive.⁹ As a result, household and non-financial indebtedness doubled to more than 90% of GDP between 1995 and 2002. Since 2015, the Socialist Party has managed to stabilise this and introduce structural reforms to control the fiscal deficit.

Estonia followed OECD institutional development templates, including meeting Copenhagen and Madrid criteria in relation to civil service capacity. Its progress resulted in an invitation to join the EU in 1996 (for accession in 2004).

Notes

- 1 Policy adoption can be a lengthy process, partly because of the consensual nature of Uruguayan politics. However, once decisions are made, they tend to stick. For example, following the 2005 decision to switch the country's energy matrix from oil to renewables, the country now generates 98% of its electricity from renewables thanks to an investment of US\$8 billion. See Uruguay XXI Investment, Export, and Country Brand Promotion Agency, *Uruguay is at the Forefront in the Use of Renewable Energy Sources*, (2022) <https://www.uruguayxxi.gub.uy/en/news/article/uruguay-is-at-the-forefront-in-the-use-of-renewable-energy-sources/>.
- 2 Chung Ju-yung was the founder of Hyundai Heavy Industries. See J. Studwell, *How Asia Works*, (London: Profile Books, 2014) p. 152.
- 3 See European Public Accountability Mechanisms, *Portugal*, <https://europam.eu/?module=country-profile&country=Portugal> (2022); European Public Accountability Mechanisms, *Estonia*, <https://europam.eu/?module=country-profile&country=Estonia> (2022).
- 4 Y.R. Kim & E. Kim, 'Reforming Korea's Political Finance System: What Does the Official Data Tell (not Tell) Us?', *Pacific Focus* (Vol. 18, Issue 2, 2008) pp. 133-157.
- 5 A 1992 political campaign included the slogan "Clean the Political Power". Further change was achieved through the 1996 Public Sector Act.
- 6 J. J. Yang, 'The Rise of the Korean Welfare State amid Economic Crisis, 1997-99: Implications for the Globalisation Debate', *Development Policy Review* (Vol. 18, 2000) pp. 235-256.
- 7 J. J. Yang, 'President Moon Faces the Reality of Welfare State Costs', *Global Asia*, https://www.globalasia.org/v12no2/cover/president-moon-faces-the-reality-of-welfare-state-costs_jae-jin-yang (2017).
- 8 Washington Post, June 10, 1983. <https://www.washingtonpost.com/archive/politics/1983/06/10/socialist-soares-takes-office-in-portugal-harassed-by-communist-strikes/f73d6aca-d0d2-4ae4-9ab7-351c6100dbf6/>.
- 9 Reforms after accession and related to the EC included: "The upshot of many of these reforms was the raising of banks' opportunities to take on more risk, to provide new products, and to access new sources of financing. Interest rates were deregulated, and credit ceilings were abolished among other measures. All restrictions on consumer credit were abolished in 1995 following the completion of the Single Market. Privatisations also played an important role in this changing landscape." See N.I. Dooley, *Portugal's Economic Crisis: Overheating Without Accelerating*, in O. Parker & D. Tsarouhas eds., *Crisis in the Eurozone Periphery: The Political Economies of Greece, Spain, Ireland and Portugal* (New York: Springer International Publishing, 2018).



Protest against five days president Manuel Merino in Peru.
Credit: Myriam B.

5. Transitions to Incomplete Liberal Democracy

This section reviews the transition to an incomplete liberal democracy of Chile, Peru, Indonesia, and Ghana. These are countries with a good record on electoral democracy but have not yet classified as full liberal democracies.

The section reviews the key factors that explain the difficulty for these countries of achieving a full liberal democracy. We do this by contrasting their transition paths with those countries in Section 3. In the four countries, we review the factors that support a full democratic transition, including social cohesion, the strength of the key political institutions of state, the rule of law, and democratic accountability.

Social Cohesion

The sense of common national identity and social cohesion are weaker in these countries than in those that succeeded in achieving full liberal democracy. They have also experienced political and, sometimes, ethnic polarisation, instead of conciliation processes or coalition building.

Indonesia is an example of a country that has put great effort into building a common national identity. Since independence, Indonesian leaders – despite their radical political differences – have invested considerable resources in supporting a common national identity in a country that is the world’s largest archipelago, with a total of more than 17,000 islands. Pancasila democracy* and the imposition of the Indonesian language, a language marginally used at the time of independence, have contributed to unifying the country. However, though democracy has been successful at many levels, it may also have intensified the friction between the nation state and the role of Islam.¹

Nevertheless, the focus on building a common national identity helps to explain Indonesia’s relative success in building democratic institutions since the end of the Suharto dictatorship.

Chile is a country with a relatively strong national identity because it is more ethnically homogenous than other Latin American countries. However, a high degree of inequality has contributed to polarisation between social classes. Political confrontation was intense in the dictatorship that followed the 1973 military coup and is again intense today, as seen in the widespread riots of 2019, the victory of a radical left-wing party in the latest national elections, and a referendum on a new Constitution. In Peru, polarisation and weak social cohesion are explained by strong ethnic polarisation and unequal income distribution. In the latest elections, the departments with a majority of original/indigenous population and with a majority of the population living in poverty voted for the left-wing Perú Libre party.

* Includes five principles; belief in Almighty God, just and civilised humanity, unity of Indonesia, democracy guided by inner wisdom in the unanimity arising from deliberations among representatives, and social justice for all the people of Indonesia. Based on the work of Sukarno as part of the Jakarta Charter and the 1945 Constitution of Indonesia.

Table 5: Peru at 200: Political and Ethnic Polarisation

	(%) Votes for Perú Libre	(%) of Indigenous Pop.	Highest Poverty Rates
Huancavelica	85	81	Yes
Cuzco	83	75	
Ayacucho	82	81	Yes
Apurímac	81	84	
Puno	89	57	Yes
Cajamarca	71	6	Yes
Pasco	66	38	Yes

* Sources: ONPE Resultados Presidencial, Censo 2017 and INEI. "Peru at 200: Urgent Need for Political and Judicial Reforms", Legatum Institute, 2021, <https://li.com/reports/peru-at-200-urgent-need-for-political-and-judicial-reforms/>.

Ghana also has strong ethnic loyalties that act as political cleavage. The "winner takes all" nature of democratic competition has intensified ethnic based polarisation. Political parties have core ethnic voters: in the case of the National Democratic Congress (NDC) (Rawlings's party), from the Volta and Northern Region, and, in that of the New Patriotic Party (NPP), from the Ashanti and Central Region (Jockers et al., 2010).² There is also a second overlapping geographic cleavage, a South and (less developed) North divide.

2019 Riots in Chile: A Case of Weak Social Cohesion

The October 2019 riots in Chile can be summarised as a revolt against business class in an airplane that was facing some headwinds. The airplane had all its engines working and there was no reason for the headwinds to cause anything other than a temporarily bumpy ride. However, the fact that the passengers were angry with those in business class resulted in a revolt that threatened the security of the airplane. Those in economy class were upset that all the food, drinks, and services were exclusively for those in business class. While the 30 passengers in business had comfortable seats, those in economy were in overcrowded conditions and had no food services. While there was one bathroom per person in business class, the 300 passengers in economy had only one bathroom between them. To make matters worse, the captain of the plane used the public address system to tell those in economy that Chile was an oasis of tranquillity in a turbulent region and instructed the crew to tell them to stop complaining. The October 18 riots were comparable to the economy passengers threatening to open the airplane's doors and put everyone's lives at risk.

The lesson from Chile is that there was no reason for the airplane to make an emergency landing. Its engines were working fine. The end of the economic boom presented challenges – headwinds – but they could be dealt with. The real problem was that neither those in business nor the pilot did anything to reduce the inequality in services and the distribution of space and perks inside the airplane. There was no disagreement as to where everyone wanted to go. Business and economy class passengers agreed that they wanted to reach the promised land. Had those in business and the pilot made a real effort to achieve a more equitable distribution, Chile would not have experienced that hard landing, nor would the country have wasted three years trying to get back on track to the promised land.

See a similar discussion in Navia (2019): Chile's Riots: Frustrations at the Gates of the Promised Land.³

Rule of Law

On rule of law, Chile, Indonesia, and Ghana have relatively high rankings. However, these do not capture citizens' low levels of trust in institutions. This may be because their judicial systems fail to control political corruption at the highest levels, making the transition to full liberal democracy more difficult. Citizens also do not believe they have equal access to these judicial institutions, compared to powerful individuals in society.

Chile's courts became more independent from the executive with democratisation. However, they are often not seen to effectively sanction corruption, particularly in relation to corruption by government officials, equal treatment, and absence of discrimination.⁴ This is reflected in Chile's incredibly poor ranking in the Legatum Prosperity Index (166th out of 167 countries) on public confidence in the judicial system and the courts.⁵

The trust of Peru's citizens in its judicial system and courts ranks marginally better at 164th in the world.⁶ However, the weakness and corruption of the country's legal system, even at the Supreme Court level, are well known and underpin a corruption-ridden political system.⁷

In Indonesia, a similar situation applies. The democratic transition has resulted in more political independence, but the corruption of the judiciary makes it difficult to control corruption and abuse of authority in the rest of society. In November 2021, the Constitutional Court showed its independence from the government by declaring the Omnibus deregulation law "conditionally unconstitutional" for not following mandatory procedures, particularly public participation. Previously, the government curtailed the autonomy of the Corruption Eradication Commission (KPK), one of the country's most effective anti-corruption institutions.

In Ghana, the democratic transition has strengthened the role of the Supreme Court in defending citizens' basic rights. At lower levels, however, the judiciary is often corrupt and its administrative capacity weak, limiting the control of rent-seeking in politics, particularly in relation to high-ranking officials and politicians.⁸

Political Accountability and Political Infrastructure

In our group of countries that have not managed the transition to full liberal democracy, political parties generally make a limited contribution to political accountability. Only Chile possesses a strong political system but, even in this case, the lack of social cohesion and income disparities have resulted in intense social conflict. In Ghana, Indonesia, and Peru, elections feature political entrepreneurs working in their own interest, with very little accountability and few controls.

In 1990, Chile started its transition to democracy constrained by authoritarian enclaves, particularly in the Senate, and ongoing control by the military. In 2005, these constraints were eliminated. The political party system is strong, but has been shaken by the mass protests and riots in 2019 when more than one million people marched against the government. The subsequent election brought to power the Frente Amplio (Broad Front), a coalition that includes the Communist Party, and a new Constitution, introducing radical changes, was proposed (but was defeated in a plebiscite in 2022 with 62% of the vote).

Peru has enjoyed 20 years of electoral democracy, the longest unbroken period of democracy in its 200 years of independence from Spain. However, political parties are extremely weak and 'informal', limiting citizens' exercise of democratic choice and following a model of 'disposable' political parties. Parties serve as temporary vehicles for political 'entrepreneurs' to pursue their narrow self-interests, based on the buying and selling of political favours and operating outside the constraints of party discipline. The electorate can make their choice but, once presidents gain power, they have no accountability to their citizens. Attempts to regulate the political system have failed.⁹

Ghana is one of Africa's most stable democracies, with two dominant parties, the NDC (Rawlings's party) and the NPP, each with a substantial core of supporters. This helps to keep violence under control because conflict would be costly for both parties. However, Ghana's two-party system is weakened by ethnic cleavages and by parties mainly competing to divide the spoils of government. The absence of financial regulations has contributed to the pervasive cronyism of the political system.

Indonesia made substantial progress in overhauling its accountability institutions immediately after the 1998 transition, and (non-partisan) local elections were also successfully introduced. However, the influence of money in politics is increasing while political parties are weak and personality-based. Vote buying has also been increasing, including through a sophisticated system of brokers.¹⁰ There is also the risk that local and national elections are becoming religious/sectarian. Islamist challenges have resulted in the curtailing of some democratic freedoms. In recent elections, President Widodo also used many state institutions, including the military, to promote his candidacy.¹¹

Programmatic Political Platforms

In Peru, Indonesia, and Ghana, elections are not decided by the platforms of political parties, but by ethnic or religious cleavages, or personality.

In Chile, political platforms are more programmatic but political parties have not campaigned on a programme of promoting structural economic reform and reducing rent-seeking. Political leaders in Chile decided that it was best simply to maintain the existing economic model and improve wealth redistribution. Only in the last election, in the context of intense political polarisation and popular protests, the Frente Amplio coalition won power with the mandate to transform political and economic structures, including the elimination of political rent-seeking and privileges for a minority.

The Frente Amplio's election was possible because of radicalisation in the context of people's dissatisfaction with the privileges of the minority and poor social mobility. Social mobility has been constrained by the quality and costs of education, which relegate low-income young people to poor secondary schools and expensive low-quality universities. The political system has seemed to reproduce inherited inequalities, rather than a merit-based society.

Reducing Rent-seeking

The four economies in our case studies in this section are dependent on natural resource rents. Greater wealth always generates more incentives for rent-seeking and, thus, makes it more difficult to build high-quality political institutions.* These economies have not embarked on programmes to change the structure of the economy and have experienced little diversification, partly because they have relied on natural resource rents. This is different from the experience of countries such as Korea and Estonia.

In Chile, Pinochet's dictatorship embarked on privatisations of public enterprises and gave the private sector a greater role in all sectors of the economy (introducing vouchers for parents to send their children to private schools, privatising the pension system, etc.). However, as in Russia, privatisation processes in the absence of political accountability resulted in assets being transferred to the politically connected.

This legacy may help to explain rent-seeking and limited competition in some sectors in Chile.¹² In addition, Chile has not built strong competition and regulatory authorities. Several scandals of price-fixing and cartel-like behaviour in the provision of goods – including in the pharmaceutical sector, supermarkets, and the poultry industry – have surfaced over the years. Powerful interests

* Contrary to what we would expect, natural resource wealth may not result in prosperity. This partly explains why countries like Japan, Korea, and Taiwan, with poor natural resources, are rich while countries like Nigeria and Congo, with natural resource wealth, are poor.

capture state regulators and discourage legislative efforts to strengthen regulatory frameworks to promote free market competition. Special privileges also relate to low collection of tax revenues and to income tax.

In relation to Chile, the OECD states that, "high concentration of economic opportunities in few activities, firms and regions hamper future progress and limit innovation." Rent-seeking is also present in the pension system.¹³

Chile is the country with more structural similarities to our group of successful full liberal democracies, particularly in relation to the quality of political institutions. However, the governing Frente Amplio is the first to be elected with a mandate for structural change in the economy and a reduction of rent-seeking. Its initial radical discourse and policies in government have resulted in an early backlash from the private sector and the traditional elites. At the same time, given weak social cohesion in the country, the traditional elites show little disposition to negotiate policies with the Frente Amplio.

Previous governments in Chile had other priorities and did not focus on changing the structure of the economy and reducing rent-seeking. Moreover, these governments did not perceive changes as urgent because the economy was doing well, partly thanks to reliance on natural resource rents. Governments maintained the dictatorship's economic model while making some increases in social spending. However, this was insufficient to strengthen social cohesion and institutional trust, given Chile's economic inequalities.

In Peru, rent seeking is pervasive throughout the economy, from state procurement for infrastructure and social spending to extractive industries, and a lack of competitiveness prevails in many areas, such as banking and industrial sectors. The private sector benefits from weak government oversight, especially in areas where there is more need for regulation, such as utilities and the environmental practices of mining and other extractive industries. Enforcement against bid-rigging and collusion in public procurement is poor. The playing field is also tipped in favour of larger companies and against the large 'informal' sector. Political arrangements have favoured privileged companies, with regulation designed not to be enforced but to discriminate and protect incumbents. These procedures have operated in line with the maxim 'for my friends, anything, for my enemies, the law'.

Peru's dictator Fujimori, like Pinochet in Chile, created an economic model that has been left mostly intact by successive democratic governments. Citizens have often voted against 'establishment' candidates. However, when these politicians win power, they are captured by the established rent-seeking elites and the private sector. Governments in Peru have not implemented policies to reduce rent-seeking.

Peru's poor institutions of state, rule of law, and democratic accountability have resulted in a situation in which the last six of seven ex-presidents have been implicated in corruption scandals. The economic model has been left intact, and the economy has not diversified.

As a result of this economic environment which favours established politically connected companies, most of the economy has become 'informal', avoiding a formal link with the Peruvian state.

Rejection of this situation by a large part of the population, together with ethnic and political polarisation, resulted in the election of a radical left-wing politician from the highlands of Cajamarca in 2021. As in Chile, this was the first time that such a radical platform of economic and political reforms had won an election. However, the new government has not had the capacity to deliver any changes and has not been able to build any support or credibility in the private sector. On 7 December 2022, President Castillo was impeached, removed from office, arrested and charged with 'rebellion' and 'conspiracy.' Amid national protests from his supporters, he was succeeded by his deputy Dina Boluarte, who became the first woman president in Peru.

The Indonesian dictator Suharto presided over a 32-year patrimonial state that permitted the enrichment of family and friends through monopolies, public enterprises, concessions, etc. The opposition referred to it as the corruption, collusion, and nepotism regime (KKN) under which opportunities existed only for the elite.

Democratic accountability has not managed to change the rent-seeking nature of the political system. The absence of regulation of political parties and private financing is contributing to the strengthening of rent-seeking and the dependency of political parties on oligarchs.

Political competition and weak political parties, ethnic and religious cleavages, and a focus on personalities are driving the political system towards greater rent-seeking.¹⁴ For example, the adoption of the 2020 Jobs Creation Law, or “Omnibus” liberalisation law, was strongly promoted by oligarch actors and, according to the Bertelsman Transformation Index country report, shows how some politicians have become highly dependent on oligarchs. The current president, who won power as a political outsider, a mayor from a small town, appears to have learned to work with the ‘vested interests’ – as has happened so frequently in Peru. He helped to curtail the power of the Corruption Eradication Commission (KPK), the country’s most successful anti-corruption organisation.¹⁵

In Indonesia, governments are not elected by a middle-class and working-class coalition to reduce rent-seeking (as happened in Korea and Uruguay). Therefore, an attack on ‘vested interests’ and political rent-seeking is unlikely. The former Christian mayor of Jakarta had a reputation for confronting rent-seeking interests, but his time in office ended in two years of imprisonment for blasphemy. Decentralisation offers the hope that reformist coalitions could take hold in some areas, reducing rent-seeking by liberalising and creating level playing field conditions that attract new businesses and foreign investment and open the door for entrepreneurs, currently in the large ‘informal’ sector. Other regions could then follow their example.

In Ghana, Rawlings’s authoritarian regime implemented reforms that reduced rent-seeking in the general economy as well as agricultural reforms to benefit small rural farmers. However, since the end of the authoritarian regime, the introduction of intense electoral competition between the two dominant political parties in a ‘winner takes all competition’, combined with an increase in natural resource rents, is likely to have resulted in increased rent-seeking.

Political competition in Ghana includes intra-party factionalism and competition for spoils or ‘gifts’. “The spoils are: the right to appoint ministers, presidential staffers, managers and board members of all parastatals, and more importantly, the right to award contracts.”¹⁶

This political economy results in a bloated civil service, low taxation due to large exemptions for cronies, the award of contracts – particularly in infrastructure – based on patronage, and intra-party factionalism, slowing down the emergence of a competitive private sector.

Governments in Ghana are often elected on anti-corruption platforms. However, the incentives in the political system make it very difficult to implement these electoral commitments. Ghana’s political system is based on a strong two-party system but, as in Peru and Indonesia, control of government is sought primarily to gain resources to reward a narrow group of essential supporters. The weak state and rule of law institutions offer little constraint on what governments can do. “Patronage and the associated distribution of the spoils of state power have become the primary pay-off for campaign and party donors as well as a means of securing new financiers.”¹⁷ There has been little pressure from the middle classes, working class, or the private sector for political transparency, more equal political access, and less political rent-seeking.

This level of rent-seeking has become dominant in the economy. This is reflected in, for example, a history of large fiscal deficits before elections, loss of revenues, inefficient expenditures, and poor competitiveness. Partly as a result, the Ghanaian economy has faced a crisis in 2022 – with public debt reaching 80% of GDP – and yet another request for IMF support.¹⁸

State Capacity

In transitions to incomplete liberal democracy, the capacity of the state to maintain good economic management, reduce rent-seeking, and deliver services is relatively limited.

Chile started with higher state capacity, but indicators suggest that it has declined slightly over time. Moreover, the Chilean civil service has not been able to keep up with private-sector innovations, and its capacity to regulate and monitor competition in the private sector has been weak. The economy has not been diversified and continues to be highly dependent on natural resource rents.

In Peru, governments have managed the economy effectively, with a strong growth record and with the support of the private sector. However, the potential of the economy has been constrained by policies that support politically connected groups while marginalising the needs of the large 'informal' sector. Peru has invested little in welfare spending beyond programmes to tackle severe poverty.

Peru's political parties use state employment to reward supporters. State capacity has become more politicised since the return to democracy. The country's poor record of service delivery – beyond the Central Bank – was tragically demonstrated during COVID-19.

Indonesia's state capacity indexes have shown some progress in recent years. In 2000, Indonesia carried out one of the most radical decentralisation processes in the world, aiming to limit executive powers. However, all this progress is constrained by political compromises and the lack of commitment to reform and reduce rent-seeking.

Indonesia had the reputation of being one of the countries with the most administrative red tape in the world. However, this appears to have changed recently through the introduction of a one-stop-shopping approach. President Widodo has recruited successful businesspeople to key ministries, including education, to streamline delivery. Under President Widodo, there has also been a greater focus on delivery for the entire country, especially in relation to internet fibre optic cables across the country.

In Ghana, state capacity has also become more politicised since the return to democracy. The clientelist political system has resulted in a bloated civil service, with "over 120 ministers and 1,000 presidential staffers".¹⁹ Winning control of the state permits access to its resources. "The country loses US\$300 million annually this way. According to the Auditor-General, public-sector irregularities from 2016 to 2020 amounted to about over US\$8 billion. And a recent report to Parliament flagged US\$3 billion in financial irregularities in 2021, 36% higher than in 2020."²⁰

These four countries have experienced the transition from dictatorship to electoral democracy. However, they have not managed to transition to full liberal democracy, primarily because the elites have been able to protect their historical privileges and have continued to benefit from rent-seeking. At its heart, a combination of weaker social cohesion, ongoing corruption in the judiciary, and insufficient institutionalisation of the party-political process has meant that effective policies to transform the economy, reduce rent-seeking, and mobilise excluded members of society have not been implemented.

As a result, the dynamics of the political system in these countries have created a 'stable equilibrium' of electoral democracy, but not the application of the principles of a full liberal democracy. Moreover, the recent elections of left-wing radicals in Peru and Chile, some recent developments in Indonesia, and the economic crisis in Ghana suggest that even the 'electoral democracy' equilibria could be disrupted.

Notes

- 1 Just over half of Indonesians (52%) do not want to have a non-Muslim governor. See Bertelsmann Stiftung, *BTI Country Report - Indonesia*, (Gütersloh: Bertelsmann Stiftung, 2022).
- 2 H. Jockers et al., 'The Successful Ghana Election of 2008: A Convenient Myth?' *Journal of Modern Africa Studies* (Vol. 48, Issue 1, 2010) pp. 95-115.
- 3 See also Navia, P. 'Chile's Riots: Frustration at the Gates of the Promise Land', 2019. *Americas Quarterly*. <https://www.americasquarterly.org/article/chiles-riots-frustration-at-the-gate-of-the-promised-land/>.
- 4 C.N. Rojas, Ciper Chile, *Corruption and Justice in Chile*, <https://www.ciperchile.cl/2020/04/20/corruccion-y-justicia-en-chile/> (2020); M. Duce & V. Zagmutt, Ciper Chile, *The weakness of the justice system in the face of corruption crimes: causes and ways out*, <https://www.ciperchile.cl/2020/03/10/la-debilidad-del-sistema-de-justicia-ante-delitos-de-corruccion-causas-y-vias-de-salida/> (2020); J. M. Roberts, The Heritage Foundation, *Corruption Scandals Tarnish Chile's Strong Rule of Law Reputation* (2015) <https://www.heritage.org/international-economies/commentary/corruption-scandals-tarnish-chiles-strong-rule-law-reputation>.
- 5 The Legatum Institute, *The 2021 Legatum Prosperity Index: Chile Country Profile*, www.prosperity.com (2021).
- 6 Ibid.
- 7 "Peru at 200: Urgent Need for Political and Judicial Reforms", Legatum Institute, 2021. <https://li.com/reports/peru-at-200-urgent-need-for-political-and-judicial-reforms/>.
- 8 Bertelsmann Stiftung, *BTI Country Report – Indonesia* (2022).
- 9 "Peru at 200: Urgent Need for Political and Judicial Reforms", Legatum Institute, 2021. <https://li.com/reports/peru-at-200-urgent-need-for-political-and-judicial-reforms/>.
- 10 Bertelsmann Stiftung, *BTI Country Report – Indonesia* (2022).
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- 13 OECD Development Pathways Production Transformation Policy Review of Chile: Reaping the Benefits of New Frontiers. (2018). France: OECD Publishing.
- 14 J. Damozo-Santos, Global Asia, *Indonesia's Slow Dance of Reform Has Backward Steps as Well as Forward*, https://www.globalasia.org/v17no1/focus/indonesias-slow-dance-of-reform-has-backward-steps-as-well-as-forward_jet-damozo-santos, (2022).
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- 16 C. A. Mills, Brookings, *Politics, policy, and implementation: The 'Ghanaian Paradox'*, <https://www.brookings.edu/blog/africa-in-focus/2018/07/18/politics-policy-and-implementation-the-ghanaian-paradox/> (2018).
- 17 F. Oduro et al., *ESID Working Paper No. 28: A dynamic mapping of the political settlement in Ghana* (Manchester: Effective States and Inclusive Development Research Centre (ESID), 2014, p. 8.
- 18 *Ghana at a Glance*, the IMF, <https://www.imf.org/en/Countries/GHA>.
- 19 E.R. Aikins, Institute for Security Studies, *Another bailout won't solve Ghana's economic crisis*, <https://issafrica.org/iss-today/another-bailout-wont-solve-ghanas-economic-crisis>, (2022).
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A woman voting in presidential and parliamentary elections Accra, Ghana.
Credit: Julian Nieman.

6. Conclusion

Political transitions depend on the self-interested calculations of political leaders and the balance of power between government and opposition groups. Prosperity requires both internal and external stability, hence national identity and social cohesion are needed to support democratic transitions.

When the time is right, and the ability of a dictator to reward essential supporters is waning, there is an opportunity for a transition in the political system. If the opposition is well organised and has sufficient popular support, a change of political system can be achieved.

This political change, however, can only result in a transition to full liberal democracy if the political system delivers an improvement in rule of law and accountability institutions. These changes make possible the transition to a reformist government that can seek to reduce rent-seeking. However, the political system is more likely to become stuck in an incomplete liberal democracy with pervasive rent-seeking (Ghana, Indonesia, Peru, and Chile).

The transition to full liberal democracy often requires a second 'democratisation' process, led by 'disruptive' political parties. These reformist parties use programmatic political platforms in elections to gain support from voters on rent-seeking and social spending policies, opening the economy to small farmers and informal entrepreneurs.



Winning power is not simple. However, it is still an easy step compared to successfully changing the political system and reducing rent-seeking. The reformist government needs to play a difficult balancing game. On the one hand, it has to maintain orthodox management of the economy that re-establishes or preserves economic stability. On the other hand, it also needs to introduce reformist policies to liberalise markets and monopolies, open the economy to the world, and introduce competition institutions and other ways to reduce rent-seeking and achieve structural change in the economy.

These governments need to act carefully to avoid a backlash from old elites because rent-seeking is also a mechanism for maintaining political stability. Nonetheless, the mobilisation of new social groups can support the development of political institutions that, over time, help to reduce conflicts.

While reducing resources in rent-seeking by vested interests, the reformist government increases social and welfare spending to reward its coalition of essential supporters, which has broadened to all voters. To consolidate the changes to a full liberal democracy, with the reduction of rent-seeking and an increase in social and welfare spending, it is important that the reformist government win re-election, creating a new norm around which all citizens can coalesce. This reinforces social cohesion.

In this report, we have identified ten components of the playbook for democracy, which have been followed broadly by the four countries with successful transitions to full liberal democracy, but incompletely so in the other countries.

Reformists should:

1. Use political negotiations and compromise to promote national dialogue, conciliation, and consensus, and support social cohesion.
2. Guarantee, as a priority, the independence and integrity of the judiciary so as to protect the probity of the state, the political system, elections, and the personal freedoms of all.
3. Learn to use the democratic process to form coalitions to provide more political equality and a wider representation of society.
4. Introduce legislation to strengthen political parties, foster their institutionalisation with better regulation – including financing – and ensure the integrity of internal and external elections.
5. Rely on ideological and programmatic policy platforms, rather than on platforms driven by ethnicity or religion.
6. Develop clear, strategic, and consensual policies to weaken rent-seeking and special privileges while maintaining the confidence of economic elites so as to avoid a backlash.
7. Consolidate the reformist political system by rewarding the coalition of essential supporters by increasing social spending and social welfare for low-income groups and the middle classes.
8. Consolidate the reformist political system by maintaining economic stability and policy continuity and strengthening government capacity for delivery.

Foreign actors should:

9. Provide financial support to reformist governments that are implementing policies to reduce rent-seeking by traditional elites. Foreign actors should not provide support to dictatorships or flawed democracies.



Lisbon, Portugal.
Credit: StockPhotosArt.

Appendix. Country Case Studies

Korea

The key to understanding Korea's prosperity through export promotion lies in essential political changes, such as the 1950 land reform. Supported by the US, it facilitated the education of low-income groups and their increased participation in society and the economy. Ultimately, social mobilisation created strong working and middle classes which, in turn, pressured the authoritarian regime to open Korea's economy and society and, hence, democratise the country.

Korea came under a dictatorship following the 1961 military coup in which General Park Chung-hee rose to power. When his position came under challenge in 1972, he suspended the Constitution, dissolved the National Assembly, and declared himself president for life.¹ Under his leadership, Korea moved towards economic maturity, but repression led to protests and eventually his assassination in 1979.² He was succeeded by General Chun Doo-hwan, who seized power in a military coup and instituted an even more brutal regime.

Korea's first democratic transition did not take place until 1987 under Roh Tae-woo. Roh represented the Democratic Justice Party (DJP), created under dictator Chun, and, prior to his election, was dictator Chun's appointed successor. Yet, following his election, Roh started implementing political reforms, including political liberalisation, by working with opposition politicians to draft a new Constitution in 1987.³ This led to significant democratic improvements, including the direct election of the president and the reinstatement of local government, marking the beginning of the Sixth Republic in 1987.⁴ However, reform was only partial and remained a top-down process in which many of the institutional innovations associated with Park's democratic authoritarianism remained unchanged.⁵ Hence, the state continued to hold tools with which it could limit the emergence of political opposition and mass-based political parties.⁶

The second democratic transition took place in 1998 amid the Asian financial crisis, which provided an opening for a reformist vision. Importantly, economic crises serve as a good opportunity for reformist leaders to win power under the key premises of reducing rent-seeking, weakening clientelist networks, expanding welfare, and promoting transparency.

Hence, in 1998, a left-leaning opposition leader, Kim Dae-jung, was elected as president. He implemented ambitious reforms to strengthen the market economy and introduced the 'productive welfare' model, based on the belief that welfare is a right but should help recipients to become self-sufficient and contribute to economic growth.⁷

In the next two decades, Korea further consolidated its democracy and began to reduce the rent-seeking in its economy, particularly in relation to the chaebols. Four developments were central to this. First, the turnover in power allowed all major political figures, factions, and parties to have a chance to govern the country.⁸ Second, the country broadened its ideological spectrum by including the left and progressives, making its politics more flexible, open, and liberal.⁹ Third, "elite pact-making" between political actors, which could be seen as undemocratic, actually contributed to smooth transitions between governments with radically different beliefs.¹⁰ Finally, major internal and external shocks and the ability to overcome them contributed to the consolidation of democracy.¹¹

Uruguay

Despite its early democratic reforms at the start of the twentieth century under President José Batlle y Ordóñez, Uruguay came under a military dictatorship between 1973 and 1985. This was triggered by a decade and a half of economic stagnation, widespread social unrest, and high inflation. Military interference in political life began to increase in the early 1970s, culminating in a full takeover in 1973.

During the dictatorship, political activity was tightly controlled by the military regime, with political parties banned and then only permitted with government authorisation. The dictatorship was characterised by torture, repression, censorship, violations of human rights, and the disappearance of many Uruguayans.

In 1980, the Uruguayan regime unexpectedly lost a referendum to reform 'democracy.' The military started to negotiate the transition with political parties. However, because of the lack of results, mass demonstrations and strikes proliferated, including a mass demonstration in November 1983.

Mounting pressure from opposition protests as from the early 1980s triggered the first stage of the country's democratic transition, and democratic elections were held in 1985. Although progress was made in establishing democratic institutions, the former authoritarian elite maintained its political and economic power until the second transition to a full liberal democracy in 2005.

Despite strong economic growth in the 1990s, the financial crisis that began in 2002 affected Uruguay severely. Under these economic pressures, the reformist opposition, led by President Tabaré Vázquez, came to power for the first time in 2005. The reformist governments of 2005, 2010, and 2015 were able to stabilise the economy and increase welfare spending through consensus-building and effective political compromise, which enabled the maturing of Uruguay's democracy. For example, rent-seeking was effectively reduced without provoking a backlash from the political and economic elites. These developments were supported by international actors such as the IMF. Effective and efficient democratic institutions led to widespread economic growth, high rates of employment, and lower poverty rates.¹²

Portugal

Portugal was ruled by a corporatist dictatorship for 35 years under António de Oliveira Salazar. While his death in 1970 presented an opportunity for change, this was not achieved until 1974, when the 'Carnation Revolution' occurred. This was followed by a true democratic transition in 1976, when the first elections for the Assembly of the Republic took place.

Coalition-building between the Socialist Party and centre-right parties was key to the transition's success, enabling the exclusion of the Communist Party from power. For example, their 1982 agreement paved the way for changes in the role of the military and the president, such as disbanding the Revolutionary Council. Their agreement in 1989 also facilitated broader privatisation and the elimination of Marxist language from the Constitution. In addition, the Socialist Party also played a key role in transforming the structure of the economy through liberalisation.

The second stage of Portugal's democratisation occurred with its entry into the European Community in 1986, which strengthened the popular consensus around liberal democracy, political transparency, and a market economy. Parties and citizens alike were aligned behind the reforms required to meet entry requirements, such as further opening of the economy, strengthening of the judiciary, and increases in welfare spending. These were facilitated by a common national unity of citizens and elites and the absence of an old elite to block reforms.

More recently, coalitions have continued to play an important role in Portugal's democracy. Four of the eight governments between 2000 and 2015 were coalitions of the two major parties.¹³

Estonia

During World War II, the Molotov–Ribbentrop Pact of 1939 forcibly incorporated the Baltic states – Estonia, Latvia, and Lithuania – into the Soviet Union (USSR). Soviet troops invaded Estonia in the summer of 1940, resulting in its annexation. With the exception of 1941–1944, when Nazi Germany attacked the Soviet Union and occupied the Baltic states, Estonia remained under Soviet rule until the fall of the Soviet Union in 1991.

Under the Soviet occupation, approximately one-tenth of Estonia's population was deported, executed, or forced to flee abroad.¹⁴ Additionally, Russian immigration significantly altered the country's ethnic composition, with ethnic Estonians constituting just over 61% of the population in 1989.¹⁵

As from the mid-1980s, the Soviet leader Mikhail Gorbachev launched new policies of perestroika ("restructuring") and glasnost ("openness") that permitted greater freedom of expression and, hence, led to demands for Estonian self-determination. Mass protests and a pro-democracy movement, the Estonian Popular Front, emerged in 1987.¹⁶ Consequently, in 1990, Estonia democratically elected an informal Congress that served as a parallel legislature to its official Communist-dominated counterpart.¹⁷

In August 1991, Estonia declared independence amidst the crumbling Soviet leadership. In 1992, a democratic Constitution was adopted, and open, multiparty elections were held in September of that year, solidifying the democratic transition.¹⁸

In the next decade, Estonia achieved rapid economic growth. The political system stabilised under a centre-right coalition. Given very low support for the old Soviet system, the government was able to push for radical economic reform. Since its independence, Estonia has pursued liberal market economic policies, establishing a free trade regime and undertaking a radical privatisation program that attracted foreign investors. The privatisation reforms were essential since they were more transparent and institutionalised than in the other Baltic states and left little room for the rise of rent-seeking oligarchies.¹⁹ Additionally, digitalisation was at a forefront of Estonia's policies, eventually leading the country to be the top performer in digital government and entrepreneurship.

After its independence, Estonia adopted restrictive citizenship and language policies. Soviet-era migrants were declared non-citizens and Estonian was declared the sole national language.²⁰ Yet, this population was able to vote in local elections.²¹

In 2004, Estonia joined the EU, marking its transition to full liberal democracy. There was strong consensus among the elites on conforming to the EU membership criteria. This, in turn, strengthened democracy. Furthermore, unlike the other Baltic states, Estonia had a liberal government for almost 30 years, permitting the creation of a state with a free press, free courts, and proper separation of powers.

Chile

In 1973, General Augusto Pinochet seized power in Chile in a *coup d'état*.

Economic liberalism was accompanied by the regime's systematic human rights violations, and the state withdrew from its dominant role not only in the economy but also in social policy.²² In the 1980s, Pinochet entrenched his socioeconomic model into a constitution. However, the dictator was unexpectedly defeated in a plebiscite in 1988.²³

In 1989, presidential and parliamentary elections were held in which the presidency was won by Christian Democrat Patricio Aylwin, representing the centre-left Concertación coalition. Through to 2005, the Concertación won all elections. The Aylwin government achieved economic stability and reduced poverty. These governments did not change the liberal economic model – economic growth was strong – and did not seek to introduce structural changes in the economy, which continued to be dependent on natural resource rents and with a low index of economic complexity.

At the same time, the power, influence, and rent-seeking of the traditional elites persisted. Hence, many citizens felt alienated from the traditional political parties.

Protests in the education sector, in relation to the cost of secondary schools and universities, escalated as from 2011, culminating in mass protests in 2019, which ended with a political pact to write a new Constitution. In 2021, Chile elected its first radical left-wing government, the Frente Amplio

coalition, which includes the Communist Party. The new president, Gabriel Boric, was an activist in the 2011 student protests.

In 2022, the majority of the population rejected a proposed radical new Constitution.

Peru

President Fujimori was elected in 1990 but launched a self-coup in April 1992, closing Congress. The Fujimori dictatorship established a liberal economic regime, provided good macroeconomic management, and defeated the terrorist guerrillas of the Shining Path. However, the government was based on a deep network of corruption that involved the military and the judiciary. After winning contested elections in 2000, the 'Vladi-videos' scandal forced Fujimori to flee the country and resign as president.

After a transitional government, headed by Valentín Paniagua (2000-2001), Alejandro Toledo was elected to the presidency in 2001. Since the return to democracy in 2000, Peruvians have voted consistently for anti-establishment political leaders. However, the country's traditional economic elites have always been able to co-opt political regimes to ensure that the economic model and special privileges for 'vested interests' are not changed. Moreover, the fragile rule of law and accountability mechanisms have resulted in weak and 'informal' political parties, which serve as vehicles for the benefit of political entrepreneurs. As a result, six of the last seven former presidents have been involved in corruption scandals.

In 2021, dictator Fujimori's daughter Keiko Fujimori was defeated by Pedro Castillo in a tightly-run and polarised election. President Castillo was supported by the regions with the largest indigenous and poor populations. He was elected with a radical left-wing agenda but has been unable to implement policy changes. Peru's weak state capacity – including its poor record on service delivery – was tragically demonstrated in the country's disproportionately high death rate from COVID-19.

Indonesia

Suharto ousted the previous Sukarno dictatorial regime in 1967, replacing one autocrat with another. His 32-year regime was characterised by a patrimonial state where opportunities existed only for the elites, leading the growing opposition movement to label it the corruption, collusion, and nepotism regime (KKN). However, Suharto successfully consolidated an Indonesian national identity, unified under the Indonesian language and the Jakarta Charter, although this intensified frictions with Islamist groups. The 1997 Asian financial crisis precipitated severe economic difficulties in Indonesia, triggering Suharto's resignation in 1998 amidst growing unrest.

Indonesia made substantial progress towards democratic transformation as a result of the 1998 transition, introducing elections and attempting to overhaul its accountability institutions. However, political parties have remained weak and personality-based, with financial interference and vote-buying becoming entrenched. Despite early progress on effective decentralisation across the archipelago, weak commitment to the use of decentralised structures has brought these gains into question.

Governments have not been elected by middle and working-class coalitions to reduce rent-seeking as has occurred elsewhere and, hence, 'vested interests' have not been challenged. The business elites remain powerful players in political life, as demonstrated by the favourable 'Omnibus Law' passed in 2020.

In more recent years, new threats to Indonesia's democratic transition have arisen. For example, the power of Islamist sectarian actors has led to a curtailing of certain political and personal freedoms. More alarmingly, President Widodo's recent use of military endorsement of his time in office poses a threat to the constitutional separation of powers.²⁴

Ghana

Ghana was ruled by military dictator Jerry Rawlings from 1981 to 1992. He secured power by suspending the 1979 constitution, abolishing multiparty politics, eliminating rivals, and censoring the press. Further violations of the rule of law and property rights were commonplace. However, Rawlings engaged the World Bank and IMF and implemented one of Africa's few structural adjustment programmes, reducing rent-seeking and supporting the incomes of small farmers.

Rawlings faced opposition from the Ashanti ethnic group and numerous businesses. Simultaneously, Western actors were becoming more forceful in their insistence on holding elections in Africa. Hence, Rawlings opted for a democratic transition as the best way to remain in power and received continued support from the IMF and the World Bank. Following a referendum, a new Constitution was adopted, and democratic elections were held in 1992. In the latter, Rawlings and his party, the National Democratic Congress (NDC), secured an absolute majority.²⁵ Although Rawlings remained in power for eight years after the initial transition, the 1992 reforms permitted the creation of new political parties and the consolidation of the principal opposition party, the New Patriotic Party (NPP). This development – and Rawlings's decision to refrain from seeking a third term – helped to facilitate the peaceful transfer of power to the opposition in 2000.

Since 2000, power has been transferred peacefully between the NDC and NPP, consolidating a strong two-party system. However, despite discussion on programmatic electoral platforms, support for both parties is largely regionally and ethnically defined. This reflects the country's north-south divide as regards economic development and the intensification of 'winner takes all' ethnic competition for political spoils.²⁶ These benefits are used to reward a narrow network of supporters and have become the primary motivation for accessing government power and resources.²⁷

Aware of these issues, governments in Ghana are often elected on anti-corruption platforms. However, commitment to these causes has been lacking given contrary political incentives, the absence of regulation of party financing, and the high cost of election campaigns.²⁸ An absence of pressure from the middle classes, the working class, or the private sector for greater political transparency has further entrenched these limitations on Ghana's transition to a full liberal democracy.

Ghana has had mixed results in establishing the rule of law, with considerable progress being made in the defence of individuals' civil liberties by the Supreme Court. However, the application of the rule of law to the elites has yet to be achieved, and the establishment of investigative bodies into elite conduct faces considerable opposition or non-compliance.²⁹

Clientelism, patronage, and corruption have also hindered the development of state capacity, through the politicisation of the civil service, low or no taxation for political cronies, and a political reliance on rents that has reduced the incentives for economic diversification.³⁰ These factors have culminated in a serious economic crisis in 2022, with public debt reaching 80% of GDP, and yet another request for IMF support.

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