



Democracy's Dividend Is the Right Kind of Growth

By Mihir Sharma
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► Authoritarian regimes can grow, but they can't deliver what their citizens want and need.

We are at a fraught point in history, one where it seems that country after country wishes to turn its back on the messiness, moral ambiguity and confusion that decision-making in representative democracy entails. Books with titles such as “Why Liberalism Failed” and “The Death of the West” herald a new consensus — forged by the global financial crisis and the rise of the People’s Republic of China — that autocracies produce better economic outcomes than democracies.

As Russian President Vladimir Putin, the most self-aware and articulate of a new breed of strongman leaders, told the United Nations General Assembly in 2015, it now appears to many that “no one has to conform to a single development model that someone has once and for all recognized as the only right one.” By generating stability, illiberal regimes can in theory produce a more conducive environment for growth than their disorderly democratic counterparts can.

Let’s not pretend, however, that there’s anything especially new about Putin’s argument. Even in the early 1990s, at the height of the West’s history-is-dead triumphalism, questions were being raised about whether democracy was truly a more effective delivery mechanism for economic well-being. In 1994, Harvard economist Robert J. Barro wrote a famous paper arguing that, while democracy might help growth in countries that were mostly unfree, once a higher level of freedom was attained, “the overall effect of democracy on growth was weakly negative.”

Among economists and political scientists, this debate has only become more heated over time. Other economists, led by Daron Acemoglu at the Massachusetts Institute of Technology, have reexamined Barro's question and found radically different answers. Institutionalists such as Acemoglu insist that the "right" political institutions create the conditions for growth. Others continue to argue that growth inevitably leads to pressures for democratization.

When the data tell you two different things, you're asking it the wrong question. Does democratization raise a country's gross domestic product? Perhaps, perhaps not. More likely, GDP is simply the wrong benchmark.

And, surely, it should be clear by now that voters worry about more than that single number at a particular point in time. They care about how growth is shared geographically. They care about its distribution across time, and across generations. Their notion of a "good" economic outcome for society isn't straightforward or unidimensional. If tomorrow the best of all studies proved conclusively, once and for all, that democracies grew faster than autocracies, I doubt any minds would be changed.

The real question is whether democracy is better suited to assuaging citizens' real worries — and meeting their aspirations — than autocracies are. And, in one very important sense, I'd argue that it is. Once you look at broader economic outcomes, you begin to see the democratic process as an economy's immune system, stopping dangerous diseases before they spread.

Consider one unpalatable reality, painfully clear to anyone from India who visits China: Democracies can't build infrastructure as quickly as authoritarian states. In China, if it's decided that a highway is needed, then the organs of the state — from its shackled financial sector to its local satraps to its giant public-sector enterprises — press ahead and build the road.

In India, anyone from a local court to a prickly nongovernmental organization to a showboating provincial politician could stall that project at any time. Infrastructure takes years to build; voters can change their minds in months. And even if they don't, the institutions of liberalism — set up to protect and amplify dissenting voices — might.

But infrastructure isn't everything. The Soviet Union dug thousands of miles of canals, electrified a vast country and poured millions of tons of concrete — while writing ambiguous poems about it. It built the infrastructure of a superpower. It was also, indisputably, an economic failure. It failed to use the capital it extorted from its workforce efficiently or wisely.

Can we see that happening anywhere today? Of course we can. In China, a system that has normalized financial repression, workers have mortgaged their individual futures to pay for the hundreds of millions of tons of concrete poured in a few decades.

No democracy could match that; its citizens would demand a fair return on their savings. Equally, democracies abhor white elephants. Cavernously empty small-town airports, cozy public-sector monopolies, corrupt local officials — these are excesses that liberal institutions reveal and democratic processes strive to correct.

In an authoritarian system, you don't even know when you're being robbed. Democracies may grow slower at times. But at least they grow right.

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The Hole at the Heart of China's Silk Road

By Mihir Sharma
Aug 8, 2018

► A seething and repressed Xinjiang can't become a hub for trade.

Nobody pretends the People's Republic of China is an entirely benign power, least of all its leaders in Beijing. Yet, even by the standards of what continues to be a remarkably repressive state, the stories that are emerging from behind the Great Firewall about the crackdown on Xinjiang's Uighur Muslim population are deeply disturbing and deserve more of the world's attention.

The one country on earth which should best understand the danger and futility of such efforts has reportedly set up "reeducation centres" across the length and breadth of its largest province, where political prisoners are instructed to repeat mantras about the greatness of the Chinese state and of President Xi Jinping. They write self-criticisms late into the night. Observant Muslims are forced to drink alcohol.

Persistent dissenters are allegedly subject to torture, including in a terrifying device known as a "tiger chair." One recent academic study warns that anywhere between several hundred thousand and over a million residents of Xinjiang may have been sent to the camps. The Chinese government has repeatedly denied the existence of any reeducation camps, saying that the people of Xinjiang "live and work in peace and enjoy development and tranquillity." It has also argued in the past that the "tiger chair" is "padded for comfort."

The western province has become a police state.
PHOTOGRAPHER: KEVIN FRAYER/GETTY IMAGES

Bloomberg

Now, you could be outraged by these stories and demand, as some countries have done, that Chinese leaders respect the human rights of all their citizens. But fewer and fewer governments want to take the risk of offending China. And, after all, more than half the people of Xinjiang are Muslims – and who today would really go out on a limb and speak out against the “reeducation” of faithful Muslims? So in Xinjiang, as in Tibet, the world is likely to give China a pass.

But there’s another question that Chinese leaders, and the rest of us, should be asking. And that is: What does this repression mean for China’s ambitions in Central Asia and beyond?

After all, Xinjiang may today be a distant border province. But it occupies a very different position on the map of the world as Xi would remake it. The Silk Roads of the past went through what is now Xinjiang and, if the Belt and Road Initiative ever takes off, it is Xinjiang that will be its hub and heart. The province is intended to connect Central Asia, the China-Pakistan Economic Corridor and Siberia to the densely industrialized Chinese heartland.

China’s crackdown is meant at least in part to pacify the region, which has seen fluctuating waves of resentment and separatist sentiment over the years. But can a province so tightly controlled by the authorities become the crossroads of a continent’s trade?

Uighurs are now largely forbidden to travel abroad – and even those who leave the province for other parts of China are suspect. Visa requirements for visitors from places like Pakistan have been tightened. Fewer will visit; others have found that wives and children across the border have vanished into camps.

Trade is more than a few sealed trucks rolling up to a checkpoint set amid walls and barbed wire. Trade cannot happen without people – without the coming and going of traders, without bustling border cities and entrepôts where deals are made and demand is weighed.

Perhaps China’s planners imagine that Xinjiang need be nothing but usefully located real estate, a barren land through which trains will thunder, shipping their products west. That is, however, unlikely to happen. For one, Xinjiang does not stand in isolation. Many of its people are part of a larger Central Asian cultural network. The case of an ethnically Kazakh Chinese woman who fled after working in one of the camps, for instance, has become a cause célèbre in Kazakhstan.

The government in Astana is already having to deal with increasing popular anger about the Xinjiang crackdown and is quietly complaining to China. The louder the discontent at home, the less polite its complaints will be. Do Chinese leaders imagine that the Belt and Road can be laid down without the cooperation of Central Asia’s governments or of its people?

Perhaps China imagines instead that continued mass settlement of the province by ethnically Han Chinese migrants from elsewhere in the country will solve the problem. The government has, after all, ensured that the province’s residency rules are the most liberal in China. But that will merely create a social tinderbox that no “smart” police state, such as is being piloted in Xinjiang’s cities, can truly control.

It's not yet too late for China to realize its errors and to seek reconciliation with Xinjiang's Uighurs. If the land-based economic corridors of Xi's imagination are to become a reality, then China will need to build a peaceful and secure Xinjiang that's integrated effectively with its neighbors. A police state full of brutal reeducation camps will merely provoke a terrifying backlash – and the Belt and Road will be among the casualties.



China Should Remember Its Friends

By Mihir Sharma
Dec 18, 2018

► **By taking all the credit for the country's stunning economic rise, the Communist Party is threatening its continued prosperity**

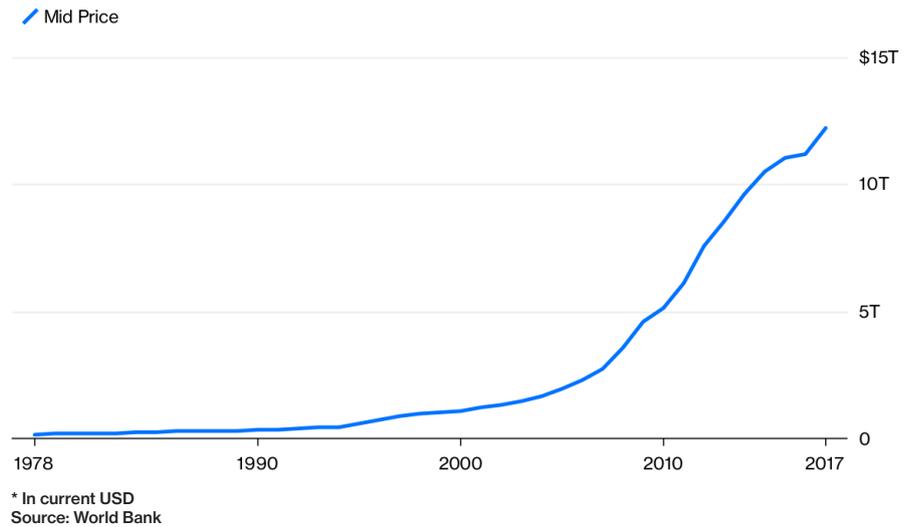
Nobody can know if, when Deng Xiaoping launched his strategy of “Reform and Opening Up” 40 years ago, even he could have predicted the near-miraculous transformation of the Chinese economy that would follow. In the years since then, hundreds of millions have been lifted out of abject poverty and into the ranks of the global middle class; China's industrial heartland became the workshop of the world; and the People's Republic has muscled its way into the first rank of global powers.

Yet the tone with which Chinese Communist Party functionaries look back on this performance grates — and for good reason. China's leaders view the country's rise with a certain smugness: as a vindication of their model of governance, their form of state capitalism and their obsession with control. Meanwhile, the rest of the world is slowly coming to the realization that the Party and its model don't deserve all or even most of the credit.

The primary drivers of this economic miracle have been the industrious and entrepreneurial Chinese people — from those who took a chance on township and village enterprises early on in the reform process, to the migrant workers who labored under unrewarding conditions to build the vast industrial complex that is the Pearl River delta, to those who, today, sit in smart Shanghai coffeehouses doodling high-tech business plans on napkins.

Mainland Miracle

China's GDP is more than 80 times larger now than when reforms began

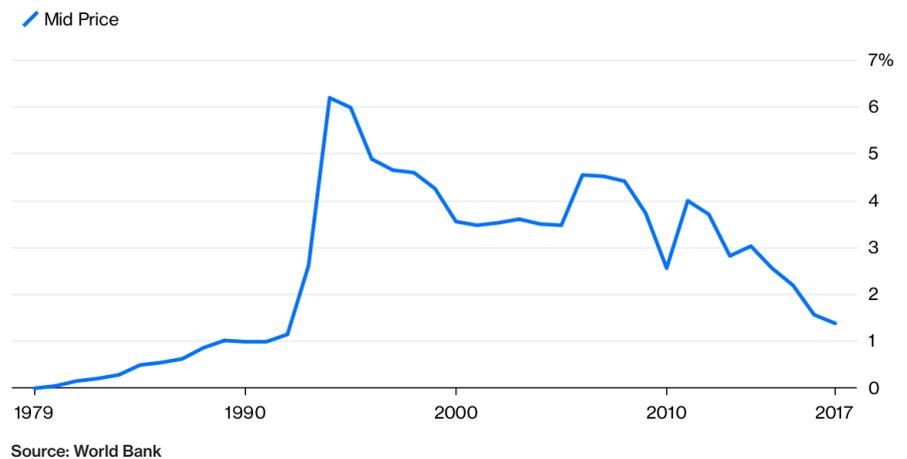


At the same time, many acts of omission and commission by the rest of the world also contributed to China's success — and the world is realizing now that it hasn't exactly been paid in full for its contribution. Corporations from across the world decided to bet on China and poured in the vast amounts of foreign investment — other people's savings — that transformed the country into the world's last industrial superpower. And governments took the considered decision to look aside while Beijing's leaders gamed the global trading system — in the hope that "engagement" and the prosperity that ensued would lead to a more liberal, freer and more globally integrated China.

This implicit bargain — that the world's investors would be able to make money in China and that the world's governments would see at the end of the process a China they could work with — has been broken. Perhaps it was always an optimistic vision, but under the leadership of Chinese President Xi Jinping it has become clear that it is beyond saving. Companies worry they will be locked out of the benefits of the next stage of China's growth; countries have to deal with a giant that's far more resentful and aggressive than they'd expected. It's hard to argue with the widespread notion that what China is celebrating is 40 years of opening up other countries, not its own.

Souring on China

Net inflows of foreign direct investment have been declining as a share of China's GDP



Economically, at least, one could argue that China's turn inwards is a mistake. However great the potential of its domestic market, the sort of high-tech innovation that it's counting on to move up the next step on the economic ladder requires global scope to truly pay off: There's no point dominating research into artificial intelligence or machine learning if it doesn't result in profits from applying that knowledge across the world.

Nor will China succeed as a source of infrastructure finance without a more globally-integrated and open financial system, and the granular appreciation of risk that such reform would bring. The Belt and Road Initiative was intended to export Chinese capital and excess capacity to parts of the global economy where they could earn higher returns. Instead it will wind up importing risks and insecurities from those regions back to the Chinese system.

A little more humility from the Communist Party about its role in China's economic transformation would serve the Chinese people well. The growing troubles of Huawei Technologies Co. come at an apposite time; they serve as evidence that, just like the 40 years just passed, the next decades of Chinese growth will also require buy-in from the rest of the world.

By taking credit for China's growth, the Party seeks to bolster its increasing authoritarianism and aggressiveness. Instead, if it better appreciated the role of the rest of the world in that success, Beijing would seek accommodation and compromise with its rivals and peers. And if it remembered that the true and ultimate source of the Chinese miracle, unparalleled in the history of the world, is the passion and commitment of China's people, it would seek more and different ways to empower them.