Does Oil Income Impede Democratization In Muslim– Majority Countries?

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Abstract

Several recent studies point to the conclusions that there exists a strong relationship between democracy and the level of income. However, if income is coming from countries' oil wealth, there is an exception to this claim; the positive effect of income in democracy is not observed. This paper argues that because of the oil income, Muslim – majority countries have not recorded significant democratization in their governments. Indeed, this paper shows the main mechanisms how oil income tends to lower the level of economic development in Muslim – majority countries, which prosperity positively relates to the level of democratization in these countries. The lack of democratization on these countries is explained by the low level of development due to natural resource curse.

JEL Classifications: Q40, Q43, Q49
Key words: Oil Income, Muslim – majority countries, Democratization

I. Introduction

It is widely recognized that many developed countries have established democratic institutions, while the majority of developing countries are far from being democratic states (e.g. Acemoglu, 2008). One argument for this discrepancy is that there exists a strong relationship between democracy and the level of income. In developing countries that are highly dependent on oil, this resource has different effects on their economic and political institutions (e.g. Ross, 2001). Although the economic literature suggests that there is a positive relationship between the level of income and democracy, it seems that oil income, specifically, appears to prevent democratization in Muslim–majority countries. This paper will attempt to argue that oil is the main reason for the lack of democracy in Muslim–majority countries.

Many studies show that natural resource income gives way to anti–democratic effects on states (e.g. Sachs and Warner, 1995). Is oil income therefore sufficient to explain weak democracy in Muslim–majority countries? If yes, why does oil income impede democratization in these countries? If no, is there evidence that the negative effects of oil income depend on the traditions and cultures of the specific countries being it Islamic tradition or Arab culture? What is the relationship between the level of democracy and economic development based on oil income? If oil really prevents democracy, it should explain weak democracy in Nigeria, Middle East, Asia, Indonesia, and Central Asia. What about non–oil Muslim–majority regions such as Southeast Asia, Sub-Saharan Africa? All these questions raise the issue whether oil income is the main obstacle to democracy in Muslim–majority countries. The purpose of the present paper is to show that oil income is more likely to hinder democratization in Muslim–majority countries.

II. Existing Explanations for the Lack of Democracy

There is a large academic literature about oil income and democratic deficit; one central paper is by Ross (2001), who emphasizes that there are three causal mechanisms which show that oil income prevents democratization. He uses cross-country data from 113 states between 1971 and 1997, concentrating in the Middle East countries to explore these three causal mechanisms. These three mechanisms are "rentier", "repression" and "modernization" which cause the absence or weakness of democracy in Muslim–majority countries. According to Ross, the first mechanism is that when governments have sufficient income from natural resources such as oil, they impose on low level personal income tax which makes them popular among the citizens. Thereafter, people become less likely to complain against to government policy in these countries. The second mechanism is "repression", according to which governments spend a lot of oil income on solidifying their power to resist internal and external pressure. Author calls the last mechanism "modernization", which means that the export of oil might prevent the arrival of cultural and social changes in Muslim–majority countries for democratization. In concrete terms, "modernization" is the effect of the measurement of oil export ratio on GDP. Ross uses this measure to explain the correlation between the level of democracy and oil income. He alleges that developed oil producing countries consume more of their own oil, while undeveloped oil producers consume less and export more. Therefore, oil export has a negative correlation with the level of economic development and it causes greater damage to democracy in poor countries rather than in rich ones.

Aslaksen (2010) revisits the negative relationship between oil income and democracy level, using empirical models to explain whether countries have less democratic changes, when they have income changes. In contradistinction to previous studies (e.g. Ross, 2001), Aslaksen does not take oil income as a share of oil export on GDP. He uses the value of oil extraction in the percentage of GDP as an oil income variable for his explanatory variable in his econometric model. He uses dynamic panel model with the cross-sectional econometric approach, and his empirical result shows that there is a strong negative relationship between oil income and democracy in Muslim–majority countries.

Alternatively, an article by Diamond (2010) emphasizes that weak economic development could explain democracy deficit in sixteen independent Arab states of the Middle East and coastal North Africa. In his paper, he compares per capita income level, which in the Arab states is almost the same as in some OECD countries. He shows that although Saudi Arabia has the same per capita income with South Korea, Kuwait with Norway, Bahrain nearly with France, Oman with Portugal, and Lebanon with Costa Rica, Arab countries have less democracy and less accountable governments than OECD countries. He also analyzes the reasons for the lack of democracy in non-oil-rich Arab states. According to the author, the main explanation for democracy deficit in Arab states is the huge differences in income distribution.

Although the approaches to causality between oil income and democracy in Muslim–majority countries vary across studies, the common point of the research to date is that oil income might be strongly correlated with the low level of democratization in Muslim–majority countries.

III. The Levels of Democratic Freedom

Before proceeding to an analysis of oil income and democracy, it may be relevant to explain some levels of democratic freedom in Muslim–majority countries with oil income. Several studies of democracy in the context of oil income use the Freedom House Political Rights Index as an explanatory variable in their econometric models. Freedom House Index measures freedom on an average rating from 1 to 7, where 1 represents most “free democracy”, and 7 represents “not free” in political rights and civil liberties.

According to Freedom House Index, the average index rate is 5 in the 45 Muslim–majority countries. Out of these countries, the 31 countries that are major oil exporters rank lower in the level of democratic freedom. In table 1, we can see that there are twelve Muslim–majority countries that had free or partly free democracy: Indonesia, Mali, Albania, Senegal, Sierra Leone, Turkey, Bangladesh, Maldives, Kuwait, Lebanon and Malaysia. Whatever the reasons, these countries are more democratic than other Muslim–majority countries, meaning they have more relevant democratic rights and civil liberties than other Muslim–majority countries.

These give us some clue that non-oil, non-Arab Muslim–majority countries are more likely democratic than oil–rich Muslim countries. Turkey is the exception in this group of countries' democracy gap paradox, as it has a secular tradition in the political system with 98% percent Muslim population. Today, unlike some other Muslim–majority countries, Turkey has a high level of democracy from Freedom House except two military coups during 1971-72 and 1980-82. Kuwait has significant democratic improvement even with its huge oil income. Although Kuwait has $37,848 GDP (PPP) per capita in 2011 according to the International Monetary Fund (IMF), there is a huge inequality in income distribution in the state economy. Furthermore, we could group these in sub–sections based on regional and ethnic characteristics, such as Arab vs. non-Arab countries. Except for Kuwait, the main feature of the twelve highest-ranking countries is that they are not Arab countries and also they are not oil–rich countries.

Table 1: Combined Average Ratings – Independent Countries (2010)									
Free (1-3)	**Partly free (3-5.5)**					**Not free (5.5-7)**			
2.5	**3**	**3.5**	**4**	**4.5**	**5**	**5.5**	**6**	**6.5**	**7**
Indonesia	Albania	Bangladesh	Kuwait	Kosovo	Djibouti	Algeria	Afghanistan	Chad	Libya
Mali	Senegal	Maldives	Lebanon	Morocco	Gambia	Azerbaijan	Iran	Guinea	Somalia
	Turkey		Malaysia	Niger		Bahrain	Tunisia	Syria	Sudan
	Sierra Leone		Burkina Faso	Nigeria		Egypt		Saudi Arabia	Turkmenistan
				Pakistan		Iraq			Uzbekistan
						Jordan			
						Kazakhstan			
						Kyrgyzstan			
						Oman			
						Qatar			
						Tajikistan			
						Yemen			
						United Arab Emirates			

Notes: Table 1 and figure 1 use data from Freedom House Index. Each pair of political rights and civil liberties ratings is averaged to determine an overall status of "Free," "Partly Free," or "Not Free."

The post–Soviet Muslim–majority countries – Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – did not record significant progress on democratization after the "third wave" of democratization. Like other non–Muslim former post–communist countries, Muslim–majority countries failed to bring democratization in their states. If we take a look at table 1, four post-soviet Muslim–majority countries – Azerbaijan, Kazakhstan, Kyrgyzstan, and Tajikistan –have 5.5 average political rights, while the other two – Turkmenistan and Uzbekistan – have 7 in political rights index. Kazakhstan and Azerbaijan have a 30 and 7 billion barrel oil reserve with ranking 11 and 19, respectively. Turkmenistan and Uzbekistan have around a half billion barrel oil reserve. While these countries have a huge amount of oil income, the main point is that post–Soviet Muslim–majority countries have low level of economic development, and these countries become democratic underachievers.

Oil producing Arab countries – Algeria, Iraq, Iran, Qatar, Saudi Arabia, and United Arab Emirates – are suffering from the lack of democracy, in which democratization is suppressed and political reforms impeded by governments. Recently, the Arab revolution – called "The Arab Spring" by the media – has begun to induce democratic transformations in North Africa. This "Arab revolution" is different from the revolution that ended the Soviet Union. The "Arab Spring" is about democracy and inequality, because most the population are unemployed and under poverty.

As a tentative conclusion, Muslim–majority country would seem to have its own social, historical, and economic reasons for their weaknesses of democracy. A point of commonality among Muslim–majority countries, however, is that they are nearly all economically underdeveloped, with only a few exceptions. The next section will show why the low level of economic development may make states less democratic in Muslim–majority countries.

IV. The Effect of Oil Income on Economic Development

The position of this paper is that the main reason for democracy deficit in Muslim–majority countries is oil income. I start with the economic mechanism to explain whether oil income tends to cause the low level of economic development, which is an impediment for democratization in Muslim–majority countries. In this paper, the level of economic development is taken as the growth rate of GDP per capita. The first reason, described in the literature, is the so-called "Natural Resource Curse" which explains how natural resources such as oil might result in the low level of economic development. Resource–rich countries grow slower and perform worse in terms of economic development than resource–poor countries (e.g. Sachs and Warner, 1995; Sala-i-Martin and Subramanian, 2003; Leite and Weidmann, 1999). Sala-i-Martin and Subramanian (2003) find that due to their dependency on the single resource of oil, the GDP growth rate of Muslim–majority countries makes them more vulnerable to external shocks. Therefore, Muslim–majority countries did not record significant economic development due to the high dependence on external shocks.

The second reason of the low level of economic development is that a big part of oil income comes from external rent, which is called "rentier effect" in economic literature (Acemoglu et. al. 2008; Leite and Weidmann, 1999; Ross, 2001). There are two different "rentier effects": First, oil income might prolong authoritarian government, and second, it prevents democracy in the state, due to the low economic development. These two effects correlate with each other. The mechanism of "rentier effect" could be caused by the level of taxation. In history we could see that the demand for representation in government appears when tax levels increase. According to Ross (2001), the main reason behind the evolution of democratic institutions in France and England was the high level of taxation. He claims that governments in Muslim–majority countries reduced the level of taxation to push against great demand for accountability. Terry (2007) emphasizes that natural resource income inclines to create "rent" on the states; governments get these types of rents via export taxes and/or corporate taxes. Oil income generates rents, and these rents are largely capturing by government via state – owned enterprises (corporate). He also alleges that natural resource extraction uses a small amount of labor, and less labor tends to less development due to high unemployment. All these reasons cause economy to perform poorly in resource–rich countries.

There is evidence that oil income encourages governments' greater budget expenditure than similar governments without oil (e.g. Inglehart, 2001). In this way, the Muslim–majority countries do not spend their oil income efficiently. The percentage of these governments' budget on military power is high, which causes the low level of economic development in these states. Terry (2007) tests the impact of oil income on OPEC countries and he finds that the share of military expenditure on OPEC members' budget expenditure is three times more than developed countries, and two to ten times more than non–oil producing countries. A large part of government spending is also off–budget in oil-rich Muslim–majority countries, which causes inefficiency in economic development. Governments also spend oil income for state-controlled local and international conferences, wide range of organizations, and professional associations, which push against independent civil society and democratization.

This type of spending effect also leads to a loss in fiscal control in Muslim–majority countries. These countries have an overspending and soaring debt problem, and oil income might encourage governments to take on debt and neglect economic development. Increasing oil production prompts governments in Muslim–majority countries to increase the level of debt. Therefore, the level of spending on government budget plays a crucial role for economic development, but oil income dampens efficiency on spending in Muslim–majority countries. In the next section, it will be shown that these reasons hinder democracy in Muslim–majority countries.

V. The Lack of Democratization in Muslim–Majority Countries

The empirical analysis by Acemoglu et. al. (2008), for example, alleges that there is a strong relationship between income and democracy, as demonstrated by OECD countries that are rich and have sufficiently high levels of democracy. Conversely, the poor, developing part of the world is less democratic. Other studies have argued that a high level of economic development increases democracy (Stepan and Robertson 2003, Donno and Russett 2004), decreases democracy (Morrison, 2009; Smith, 2008), or has no significant effect (Knack, 2004). Difference approaches from analyzing is different group of countries and times, different econometric methodology, and various possible ways to measure for oil income and democracy in these countries. Despite this general disagreement, however, a common conclusion is that among the developing economies, there is no significant difference in the level democracy between Muslim and non–Muslim countries.

Barro (1999) shows, however, that increases in the standard of living can help to encourage the development of democracy across all types of countries. From this, we might expect that an improvement in the level of economic prosperity matters for improvement in democracy. However, some Muslim–majority countries continue to show a low level of economic prosperity and development, which is the main reason for their lacks of democratization. In other words, because of the low level of economic development in Muslim–majority countries, their governments are less likely to make a push for democracy.

But the low level of economic development is not enough to explain less democratization in Muslim–majority countries. There is another reason which matters for democracy in these types of countries. The lack of democratization also might be explained by "repression effect", that is, oil income may lead governments to spend revenue to preserve their authoritarian power (Ross, 2001). Entelis (1976) emphasizes that oil income prevents the prospects for democratization in Arab countries, and he shows that oil income gives government an authoritarian power with a huge amount of budget, which could reduce dissidences in these countries. In this respect, Rowley and Smith (2009) show that Muslim-majority governments spend their budgets strengthening military power in the forms of internal security to block opposition and suppress the democratic transformations.

There are several reasons why resource rich countries, including – as Muslim countries, have strong military power. One reason is government need authoritarian power to prevent itself against to global compression, and oil income allows governments to prolong their authoritarian regimes. Other reason is oil income may induce ethnic and regional conflicts especially in Middle East and African countries. A strong military is necessary for government responses in the stability of state in these countries. Collier, Hoeffler and de Soysa (2002) find in their empirical framework that oil income leads to civil war, which increases the importance of strong military power. Consequently, ethnically cracked countries such as oil-producing Arab countries have strong military power, which causes weak democratic development.

"Repression effect" also relates to the level of education, social and cultural changes in the countries, where education and modernization are the main determinants of the level of democracy. According to Inglehart (2001), social and cultural changes have a direct influence on democratization. First, the high level of education causes the public to become more demanding on the political accountability of government. Second, the increases in occupational specialization give strong bargaining power to the skilled public against political pressure. Although education plays a crucial role in the development of democracy, OPEC members spend less than 4 percent of their GDP for education. The main point for the weak democratization of Muslim–majority countries is that oil income does not encourage a high level of education and does not expand the middle class, which might be a force for cultural and social changes. Consequently, because of the "repression effect", the formations of social groups which are independent from the government fail in these countries.

VI. Conclusion

The main insight of this paper is that oil income is sufficient to explain the democracy gap in Muslim–majority countries. Oil rich Muslim–majority countries suffer from the “rentier effect”, which prevents governments from becoming democratic in these countries. High amounts of oil income induce governments to impede the development as a process of social and cultural changes, which might have a different orientation than the government in terms of democratization and extent of freedoms in the society. The formation of social and cultural changes has been weak in some countries. The main mechanism which is responsible for the correlation between oil income and the low level of democracy is that, oil income causes low level of economic development in Muslim–majority countries, and this low level of development is an impediment for democratization in these countries. Governments in these countries have used a huge amount of oil income for themselves to set up authoritarian regimes and they have not used significant fiscal policy which relates to the taxes, and sufficient spending to get a high level of democracy in their countries. Therefore, the low level of economic development, repression and social-group formation effects infer that oil income determines the political system in Muslim–majority countries.

As a conclusion, it can be implied that it is not easy to explain the lack of democracy in the oil–producing Muslim–majority countries. Because, it varies across the countries, regions, time and non-economic reasons, which need to be study in more detail.

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