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Title: Democracy is a project of capitalism to secure free-market competition. Democracy does not solve the unjust economic exploitation of the poor by the economically rich.

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“Democracy is a project of capitalism to secure free-market competition. Democracy does not solve the unjust economic exploitation of the poor by the economically rich”. Discuss.

In a book, *The Third Wave Democratisation*, Samuel Huntington (1991, p. 41) highlights a cyclical pattern of a political regime change that is influenced by social and economic factors. Democratic regime cannot endure if social disorder and corruption reach a level that is considered unacceptable in the society. It will be overthrown by military. Military rule is pushed out of office and reversed to democracy if they are incapable of dealing with economic problem. Indonesia's political landscape is a good example of this pattern. After World War II, Indonesia began with a democratic regime. Then it was overthrown by military in 1965 and again has been reversed to democracy since 1998 (Fukuoka 2013, p. 992). However, after democratisation, in 2002 one Non-Governmental Organisation activist, who has been working to empower the economic capacity in poor village communities, mentioned in a Jakarta conference that ‘Democracy is a project of capitalism to secure free-market competition. Democracy does not solve the unjust economic exploitation of the poor by the economically rich’ (Bhakti 2004, p. 196). With this statement, this paper will argue that democracy is not a project of capitalism. The primary reason is that each country strongly commits to economic development regardless of political forms whether it is democracy or authoritarian. It further argues that the relationship between democracy and capitalism is not direct while economic exploitations exist not only in democratic countries but also in authoritarian regime.

Given that this claim was made in 2002 in Indonesian context during a transition period toward democracy, the claim is not tenable because it overlooks country's political reality and economic changes. It is worth pointing out that the move from authoritarian to democratic regime was genuinely supported by majority of Indonesian people on the expectation that it would end economic crisis (Akkoyunlu 2007, p. 52). Yet, many people disappointed with this new democratic government because it failed to improve economic growth (Bhakti 2004, p. 196). However, within this period, the claim dismissed two striking challenges the government encountered. First, due to the regime change, government had confronted with many political reforms. For instance, the reform on the roles of arm forces in politics to suit democratic system (Mietzner 2006, p. 6). The separation of power between executive, legislature and judiciary in

compliance with democratic principles was also carried out. Restoring freedom of speech and association with vibrant press were also part of the new government mandate (Ghoshal 2004, p. 514). In other words, the country tried to restore its political order after the collapse of authoritarian regime before embarking upon economic reform. As mentioned by Collier (2007, p. 64) that an economy will be destroyed with an alarming speed if country faces with political instability.

Second, Indonesian economy was severely impacted by the Asian financial crisis in 1997. The impacts had prolonged to a new democratic government. Under Suharto's leadership, the government sought help from the IMF to restore its economic growth. However, in order to get financial assistance, the recipient country has to agree with its long list of conditions (Stiglitz 2007, p. 34). Indonesia is no exception. In an exchange for an aid package, the IMF demanded that Indonesia closed 16 troubled banks and undertook various reforms. The closure of 16 banks without guarantee deposits held in other banks had frightened and pushed Indonesian people to withdraw their savings from every bank (Stoner & McFaul 2013, p. 154). This led to more chaos. As a result, investment fell dramatically and continued even after democratisation. Unemployment increased and the cost of living rose (Shiraishi & Hill 2007, p. 132). Under the IMF conditionality, the government also passed a law to remove monopoly on state-owned companies such as Oil Company (Gray 2002, p. 5). Until 2003, Indonesia moved away from the IMF's programme and stabilized its macro-economy (Shiraishi & Hill 2007, p. 131). Therefore, with both political and economic reforms, people have to endure with the process, and it takes time to see its result.

Besides economic problem, the statement fails to further look at various dynamic of social challenges that lead to democratisation. It is acknowledged that during Suharto's authoritarian rule, the country enjoyed economic growth. Poverty decreased sharply through its economic liberalisation (Sumarto et al. 2012, p. 6). This supported the legitimacy of authoritarian regime. Schumpeter (1976, p. 199) argues that 'capitalism bases on profit principle for its daily bread, yet refuse to allow it to prevail. No such conflict would exist in socialist society'. Przeworski and Limongi (1993, p. 56) also mention that state autonomy under authoritarian rule and free from private pressure can enhance economic performance. It seems that authoritarian socialism triumphs. However, with this economic success, there was a rising of new group, the middle class. This new group was no longer content with economic growth and demanded more

political participation (Ghoshal 2004, p. 514). Fukuyama and Robert Barro agree that when as society become richer, people seek non-material goals such as freedom and political participation (Fukuyama 1992, p. 108 and Barro 1996, p. 34). The only way to achieve it is through democratisation. However, this is not the sole reason for regime change in Indonesia. It was simultaneously reinforced by other social problems. For instance, ethnic and religious clashes between Muslim and Christian led to social disorder. Strong social control and human rights abuse were widely seen. Corruption was also severely rampant and occurred among Suharto's friends and families. Privatisation was just a transferring of an asset from the state to his patronage networks (Schwarz 1997, p. 120, 122 & 126). All of these collectively led to social unrest and massive protest among populations (Akkoyunlu 2007, p. 47). Therefore, not only did economic issue influence the movement toward democracy but also social factors.

Moving beyond Indonesian context, the statement can also be attested with the reason that democracy undermines capitalist system due to its political and civil freedom. Democracy is not only about election. It also comprises of political and civil rights (Beetham 2005, p. 2). People have more power and voice to determine what should be operated in the country. For example, workers can demand for more wages in the factories. They can organise a worker union that is even more powerful to bargain with government and foreign investment companies (Prezeworski & Limongi 1953, p. 55). In democracy, the government has to deliver what the citizen wants. If the government performs this well, they will be reelected (Collier 2009, p. 35). These characteristics can reduce firm's profits and hence drives investments away. Furthermore, Thomas Friedman (2000, p. 214) indicates that democracy provides opportunity to people with a degree of equality in economic participation. They become part of the game. Thus it can be assumed that economic policies introduced by the state will be blocked if it does not serve their interests while in each society there are many groups with diverse interests.

Another factor to support that democracy is not a project of capitalism is that each country can adopt capitalist economic system but political arrangement is not democracy. A number of scholars with their cross empirical analysis prove that the connection between capitalism and democracy is not direct. Lipset (1959, p. 101) mentions that the emerging state such as Asia and Africa are committed to more economic development under whatever political forms than they are to the pattern of free elections. Milton Friedman (1962, p. 10) also exemplifies that a country can have a

capitalist mode but political arrangement that is not free. Fukuyama (1996, p. 108) also concludes that there is no deterministic law to link between democracy and development. Evidences from current countries practices can further solidify all of these literatures. For example, countries such as China and Vietnam are still adhering to communist regime while adopting a free-market economy. In China, there are more than 353,000 foreign-invested enterprises and around 400 are transnational corporations (Guan 2001, p. 247). Vietnam, following World War II, has moved from planned economy to market economy by opening up trade, investment and strengthen property rights while political system is still adhered to communist party (Dollar & Kraay 2002, p. 130). Therefore, capitalist economy is inexorably expanded regardless of political regimes.

However, it is undeniable that the exploitation exists in democratic countries, so does in authoritarian regime. The force of globalisation, economic competition and absence of regulations drive these problems. With the force of globalisation, the power has shifted from the state to multinational companies due to its capital power. With this power, multinational companies can manipulate international trade and investments through WTO rule of games. Stiglitz (2007, p. 73) highlights that trade agreement is not free and fair because rich countries still adopt subsidies mechanism against the poor countries' agricultural and textile productions, which are their only comparative advantages. It can be further argued that even the rule of game is fair, each developing countries cannot take it advantages due to their differences in capital, skilled labour, technology and infrastructure (Reinert 2007, p. 113).

Besides, due to the desire to keep its competitive advantages in international market, developing countries have to keep their labour cheap to attract more investment and increase exports (Guan 2001, p. 252). For instance, the workers' wage in China to produce a pair of PUMA sneaker is 1.66 per cent of a sneaker with 70 USD retail price while the total cost of its production is just only 1.16 USD (Foster & McChesney 2012). Furthermore, the exploitation of capitalist market becomes more well-known when more than 17 Chinese workers committed suicide in Foxconn electronic company, which produced and supplied iPad and iPhone worldwide, due to harsh working conditions and low wages (Johnson 2011). Thus the real tragedy of the capitalism is not about unemployment but it is about employment with the impossibility of providing adequately for the employed without impairing working conditions. Unlike China, India

has around 100 million children working in garments and footwear, which deprive their basic rights (Kala 2006).

This exploitation is also reinforced by both the failure of global legal system and government regulations of developing countries. Chemical explosion in Bophal, India in which a company was owned by the US is an example of the former. The explosion killed more than 20,000 people and inflicted serious health damage to the local populations. The company provided compensation of 500 USD for each life while the company's CEO fled to the US. Indian government requested for the CEO extradition but the US government rejected with no reason (Stiglitz 2007, p. 194). China's case of labour exploitation mentioned above is a good example of the latter. If Chinese government suppresses the power of transnational companies, such as increase the power of trade union and strengthen its minimum wage law, it might result in an outflow of capital. Hence, unemployment and poverty will increase (Guan 2001, p. 244). Dunning and Lundan (2008, p. 07) highlight that through the inflow of foreign capital, the power to control over decision making on the use of the capital is in the hand of big corporations.

The absence of regulatory policies also boosts more capital flow and investments from rich countries to poor countries. The lack of environmental standard and laws draw FDI into developing countries. Due to its higher cost in environmental protection in their home countries, thereby they have to relocate to a country where there is less gear to promote such protection (Dunning & Lundan 2008, p. 312). A global mining company, Broken Hill Proprietary Company Limited in Papua New Guinea is an example. This mining company dumped more than 80,000 tons of wastes into Ok Tedi River that result in ecological damage and devastated 120 riverside villages (Velasquez 2006, p. 250). In addition, in Indonesia during authoritarian regime, Suharto signed contract with cooper and gold mining industry in West Papua. The company dumped around 300,000 tons of mining wastes into 3 rivers forcing people to relocate (OECD 2002, p. 2). All of these destroy people's cultural and traditional value in the community.

In conclusion, the claim that democracy is a project of capitalism to secure free-market competition is not valid in both Indonesian context where this claim had made and in general situations in the world. The regime change in Indonesia emphasizes the importance of economic development and social orders under whatever forms of

government that the country pursues. More importantly, capitalism is seen not only in democratic countries but also in authoritarian regime. If democracy is a project of capitalism, then countries such as China and Vietnam will become democracy. Yet they are still communist states right after they adhere to capitalist market arrangement. This proves that there is no link between democracy and capitalism. However, it is irrefutable that capitalism inflicts damage and exploitations in both democratic and authoritarian countries. It comes in the forms of human rights abuse such as low working wages and harsh working conditions that degrade human value. Environmental catastrophes are also commonly found.

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