



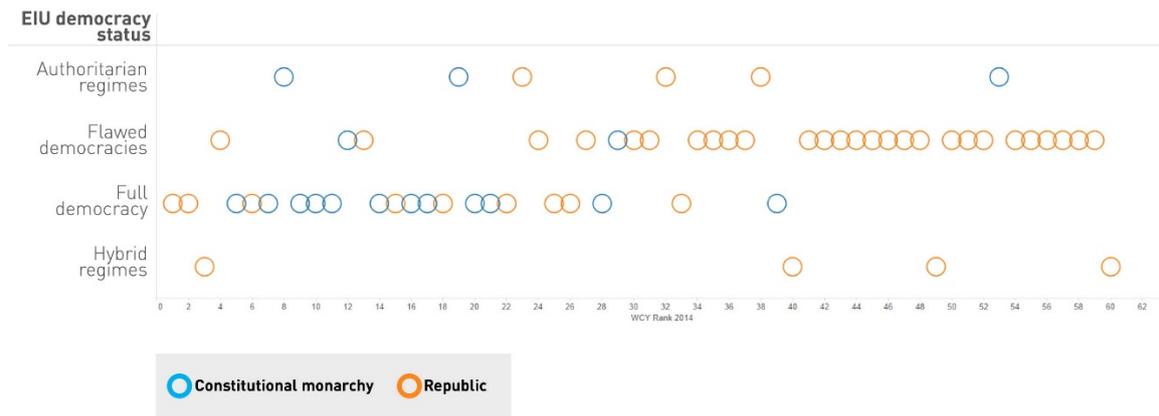
## Competitiveness and Political System

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Is there a relationship between political systems and competitiveness? Does democracy help or hinder competitiveness? These are recurrent questions in our discussions with executives and politicians worldwide. Let us try to provide some insights on this issue.

The 2014 IMD World Competitiveness Rankings show that, among the 15 most competitive economies, four are not full democracies (as defined by the Economist Intelligence Unit): Singapore, Hong Kong, the UAE, and Malaysia. While this points to a positive correlation between democracy and prosperity, it is worth stressing that, among the 5 least competitive economies in our sample of 60 countries, two of them (Argentina and Venezuela) rank in the top 30 most democratic nations.



The graph sheds some light on the different political regimes and their relationship to competitiveness. Most of the countries we survey are either full or flawed democracies, and there are authoritarian regimes that are very or not at all competitive. Interestingly, democratic monarchies dominate among the most competitive nations: out of the 15 top economies in the IMD ranking, 8 of them are monarchies, and among them 6 of them are full democracies (Sweden, Canada, Denmark, Norway, Luxembourg, and the Netherlands).

So what is more important, having a democratic regime or a monarchy? Our detailed, quantitative analysis shows that, in 2014, there is a significant relationship between democratic rights and competitiveness. Controlling for that, the choice between a monarchy and a republic is irrelevant. This is sensible and intuitive. However it is difficult to draw a conclusion regarding the direction of such relationships.

Democracies facilitate good decision making and therefore spur economic development, prosperity and ultimately competitiveness. At the same time, the more competitive economies are those where the social and institutional infrastructure of the country (human rights and education) are most developed. In the long run, inclusive and non-extracting (democratic) institutions arise as a result of competitiveness.

As a conclusion, our experience of 25 years studying competitiveness at the IMD World Competitiveness Center render a simple learning point: competitiveness efforts and democratic institutions need to be developed in parallel. Democracy is not a pre-condition for competitiveness (example: the UAE). Nor it is competitiveness a pre-condition for democracy (i.e. Venezuela).