AUTHORITARIANISM AND DEMOCRACY IN THE RATING EQUATION

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The challenges that the rating process has been submitted to after the onset of the contemporary economic crisis caused profound shifts on how this activity is performed. The parties involved in assessing and evaluating country risk have observed only distorting effects derived from the global recession, thus neglecting political valences inevitably associated to the difficult times that came to past. This article aims to evaluate the role of authoritarianism and democracy over investors, but also to analyze the situation of the social movements that took place in the Arab world.

Realpolitik under the circumstances of authoritarianism

The events that occurred in 2011 in North Africa led to rethinking of how democratic governments and various companies that depend on them, altered their relationship with authoritarian governments. The transposition of North African nations from modernization to modernity (Huntington S.) brings a change of paradigm.

The important developments from the Middle East and North Africa seem to give a new perspective on how all these players are starting to look at their partners, whose legitimacy to govern is impaired. Until the end of the events marking the international political scene, governments and companies will show an aversion towards these regimes than not well seen by the international community or by the people they lead. Actions that will take shape during the next period can have as a final point the recognition of the importance of governance legitimacy and a clearer manner to point it out in political risk assessments. If we get to rethink the political stability in terms of the legitimacy to govern, there will be extensive changes in foreign policy among with heavily developing of new strategies for foreign investments, which will have a direct link to the global policies.

Current events have brought to public attention the issue of ethics in the relations between developing and developed countries, but also the need to find a new direction expressing realpolitik (Rauchhaus R.). France was affected by the international perception that it had cordial ties wto the former Tunisian autarkic regime. U.S. openly supported Mubarak regime in Egypt, while Britain, neglecting the Lockerbie incident, claimed diplomatic rehabilitation for Muammar Gaddafi. The argument to support dictators and undemocratic governments was traditionally based on players' pragmatism. This way of treating things achieved through a diplomatic approach has attracted support from such states in the Cold War, the Gulf conflict and, more recently, in the U.S. war against terrorism.

On the basis of searching for allies but also fueled by the fear that governments could be replaced with others that are opposing the ones from developed countries, the former governments have begun to tolerate bilateral relations with these illegitimate partners. Democratic governments have shown a tendency to neglect the political issues of states under dictatorships, also revealing great tolerance for their leaders' conduct.

Westerners fear that the political vacuum in the countries of the Arab world, would allow Islamic extremists to gain the power in these locations. However, such fears seem to be contradicted by the peoples who are kicking the dictators, and demand an increase of the democratization

process. In reality, the actual direction that they will go will depend on the message made by every political force and by the degree to which this message attracts more supporters. This approach is obvious in Egypt, where The Muslim Brotherhood is unlikely to impose its Islamic vision, as most people called for reforms designed to democratize the country. One can not overlook the fact that any action taken in the revolution affected regions must take into account the view of the political representatives of Islam. This idea comes out based on the premise that their representatives will have to play a more or less significant place in the political life of each country.

The problem that developed countries governments face in the post-revolutionary period is that new leaders will have to seek legitimacy in a democratic way. By seeking legitimacy, foreign governments and multinationals with business in these countries will have to accept the new regimes regardless of their political orientation or the statements they make. This has dual implications reflected at government and investor level.

The investments and ratings in the new political conjuncture
Political issues in Tunisia, Egypt and Libya created ethical and practical dilemmas for investors who have exposure on those countries. The prevalent sectors covered by foreign investment are associated to the extraction / processing of natural resources and tourism. Especially in the mining industry there is the possibility to operate in environments which are characterized by the troubled political legitimacy of the ruling regimes. Any change of such a regime creates a concern of the investors in terms of contract and asset security. Further on, issues related to how the investor is perceived and his/her ties with the former regime are other elements to be considered. There are historical precedents where companies were forced to pay damages to the new regime due to the fact that they have had a history of collaboration with the former corrupt or authoritarian government.

In their traditional approach, theories reveal that foreign investors tend to be indifferent to the type of the host's country government, or that they even favor the "stability" of an autocracy. A study performed by "Economist Intelligence Unit" (EIU - Index of Democracy 2010) regarding companies with business abroad found out that 50% of respondents considered the democracy as an attribute when making the investment decision, while 30% indicated that authoritarian states were chosen because they are more predictable and offer a stable environment. The results of the study show the investors' predisposition to performing business with authoritarian governments, which are perceived as more stable.

If recent developments in North African countries are likely to change the opinions already formed on those issues it is still uncertain. It is unlikely to experience a radical shift in the conscious of investors, because in many cases the benefits are higher than the long-term costs. Mining companies operating in the areas affected by strong authoritarianism can not afford the luxury to select countries where they operate. They simply go where the resource is available to be extracted. In order to overcome the political problems this particular class of investors a serious planning of operations is performed in the countries where they carry out such states. Companies in the oil field, as a specific example for the mining sector, have some experience in managing political risk. The latest example of mutation in these companies is the Algerian government's decision, to take economic measures that would bring more money to the public budgets by sanctioning oilcos. The taken measures calmed down the social tensions as they followed to tax foreign companies operating in the oil field.

Experienced investors in international markets are prepared for the event that the newly installed regimes want to review the terms of contracts or concessions. The investors' major concern is actually the possibility that overturning these authoritarian regimes could bring a prolonged period of uncertainty, with frequent changes of political direction. This perception is reconciled with the idea of political stability, arising from the EIU study, meaning that an investor wants,

above all stability. There is little doubt that the current political events make other autarkic regimes' longevity to become increasingly suspect. In this regard, investors should reassess the premises from leaving the quantification and measurement of political risk and their actions in countries with autocratic regimes.

Fig. 1: EIU Democracy Index (2010)
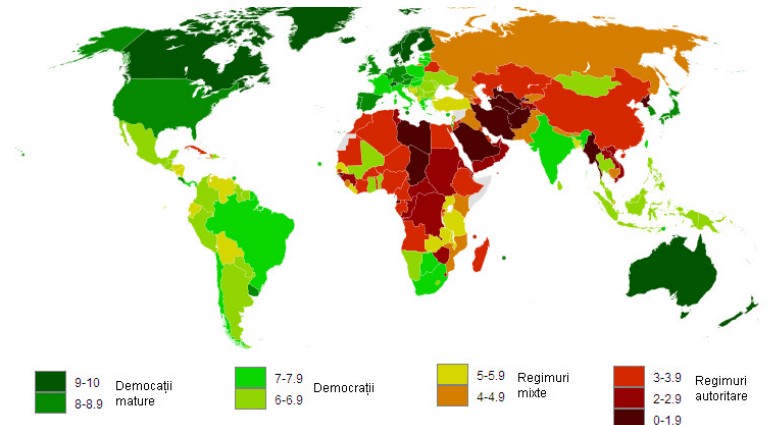
Source: Economist Intelligence Unit

Because the evaluation and rating agencies are the first level of protection for investors regarding country risk, it becomes impetuous the need to consider in their analysis a differentiator between democratic and authoritarian states. This issue is strongly connected to the legitimacy of the regime. As investors, rating institutions tend to marginalize the impact of the legitimacy of a political system in the political risk for a state. Worrying is the fact that not all investors have the ability or power to reorganize their business under the specter of new changes and the mere presence of big names on the market is not sufficient to guarantee the absence of political and economic crashes.

All this leads to the idea that rating institutions should reconsider how they analyze different entities. Indeed it should be noted that there are patterns in which political risk ratings tend to decrease at countries with a more pronounced degree of authoritarianism. Translating this situation in ratings provided for political risk assessment reveal that Iran and China can not have a higher evaluation than democratic states have. A rethinking of how states are seen in terms of their government legitimacy comes at a delicate moment, as the world is currently divided almost equally between democracy and authoritarianism.

The new contagion sources for political risk
Internet and technology have begun to play an important role in influencing masses of people and unavoidably this is reflected in an indirect manner on the economy. The impact of technology is the main differentiator of the twentieth century and the twenty-first century, compared with previous periods. Accessibility and ease characterizes information flows and this has attracted a number of vulnerabilities. This field is still being neglected in the rating process of a country or a company. In 2011's yearly context, the online communication has played a decisive role in the formation and the events that have succeeded in Africa and have spread to the entire Arab world. Internet services were restored in Egypt on February 2, 2011, after being completely closed for two days after the riots that took place. The causes which urged the authorities to take such measures are related to the role the Internet plays in daily activity, and especially the role it had in shaping and carrying out revolutions in Egypt and Tunisia.

The new-found vocation of social networks in a politics is crucial as it provides a fairly and clear measurement of the frustrations of a nation. Thus social networks are a barometer for political risk in countries where liberty is still to be improved. In the past, many governments have resorted to repressive policies or internal regulations to stop the activity of some internet pages with opposing views. The most frequently cited reason to resort to this measure is the inconsistency between company and country policies. In the case of Facebook, a rule made to ease up the reconciliation process between public and private policies requires all administrators to use their true identity on their pages. In the specific cases of the protests in Egypt, Facebook faced a requirement to assess the compliance of this policy. The social network's answer to this claim was this time astonishing, as instead of closing the page, Facebook facilitated a controlled transfer of the page created under a pseudonym to an U.S. Egyptian dissident. Such an action has allowed the operation of the page without any real risk to its creator and without violating their own regulations. Active involvement of Facebook in the riots from Egypt has occurred in the context that several human rights organizations have highlighted the power that IT companies hold on to controlling information flows.

The historycal duels between companies from the IT sector and governments have major implications, since each of them seem to have understood the power each holds. In 2010, Google entered into an open conflict with Chinese government censorship on the issue of its search engine results'. Meanwhile, the Russian government used the illegal use of software to close more pro-democratic NGOs with critical vocations to its policies. In this case, Microsoft responded by offering free licenses for the applications for which those Russian organizations could afford. During the riots from Egypt, both Facebook and Twitter have played an important role in organizing and conducting protests while other companies from the industry have supported their actions. For example, Google has provided a service to allow users to post messages on Twitter by voice command, after the government blocked access to the micro blogging of the social network. The role of the social networks in the protests and uprisings during the recent years has attracted worldwide attention. Thus, social networks have made possible changes in the political regimes more easily. A basic assumption in understanding their role is that social networks are more difficult to support an authoritarian regime. Even for hardened autocracies such as Iran and Myanmar the on line environment poses a threat as it may induce a slow democratization process.

However, not the social networks are instigating to revolutions. They are merely the measns of communications for the frustrations of a nation by representing a free way of expressing uncensored ideas. In fact, the role of networks in creating and developing the events in Tunisia and Egypt differ only in terms of their means compared to the tape recordings of the video of ayatollah's Khomeini Ruholla Iranian revolution of 1979. Social networking groups have managed to facilitate political shifts by cost reduction, organization, recruitment and training of new adherents to a certain cause.

Fig. 2: Indices of the predisposition to conflict and corruption of some countries of the Arab League Member (Feb 2011)

	Yemen	Libia	Egipt	Syria	Arabia Saudita	
Shoe-Thrower Index	86.9	71	67.6	67.3	52.8	great risk
IP Coruptie	146	146	98	127	50	

	Algeria	Iordania	Tunisia	Maroc	Bahrein	
Shoe-Thrower Index	51.3	50.3	49.4	48.2	37.7	reduced risk
IP Coruptie	105	50	59	85	48	

Source: The Economist, Transparency International

Tunisia is a landmark case because it is the first country in which social conflicts broke out. Its on line revolution has started after posting in several locations of the online environment some materials showing the problems the country. Even if "inspiration is not contagion" it is impossible to overlook the fact that the premise of a contagion is supported not only by the people's desire to overthrow the government after a predetermined pattern, but more to common problems faced by all the countries affected: unemployment, poverty and the corruption. The primary role played by social network in the Tunisian revolution would be an example for the Egyptian authorities, who evaluated from the outset the true contagion potential of these situations, but failed to oppose the free flow of information.

Fig. 3: Protest movements in the Arab world and their propagation (2011)
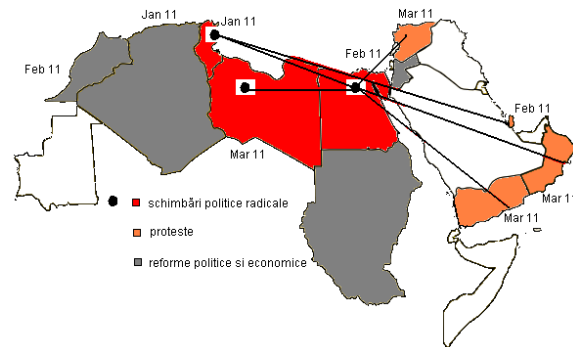
Sursa: BBC

Symptomatic factors of Tunisian problems are found in all countries placed under the specter of crisis caused by the political context in which they are. What social networks have been helping with is to free up the information flow within these countries where freedom of expression is still restricted. This has lead to mutations of the political risk associated to them.

The cases of Tunisia and Egypt were direct results of the use of social networks like Facebook and Twitter to help organize, communicate and, ultimately, to initiate protests. In the past, there were examples of nations that have turned to social media to express their discontent with the political regimes. In 2009 there were the examples of the "green revolution" from Iran, closely followed by Western media via YouTube and Twitter, while in the Republic of Moldova, a popular movement was named "the Twitter revolution".

In conclusion the freedom of expression should be quantified in country risk analysis. This indicator can lift the mask that hides a system that sooner or later will collapse under its own weight. The on-line environment can be a clear barometer for determining the degree of freedom from each country. Of course, in the case that a government recurs to restricting dangerous groups' rights, it is understandable that such measures are to take place. Revolutions determined by social networks and their differentiators play a significant role in this gear. Representing a new environment, with dangers and benefits, social media can facilitate communication and can be a very important element of analysis to quantify the more subjective areas of country risk.

Authoritarianism and democracy are key elements in understanding and correctly evaluating political risk. However, it seems that some times their importance is neglected and this can only bring challenges to the rating process since business perceive authoritarianism somehow more stable than a democracy. In the light of the "on line revolutions" some rethinking of the validity of this idea is to be reconsidered. Further on, the events that took place in 2011 reveal new contagion sources for political risks and point out the need to consider the evaluation of certain freedoms when assessing country risk.

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