SYSTEMICAL IMPACTS OF GOVERNMENTS ON ECONOMIC DEVELOPMENT
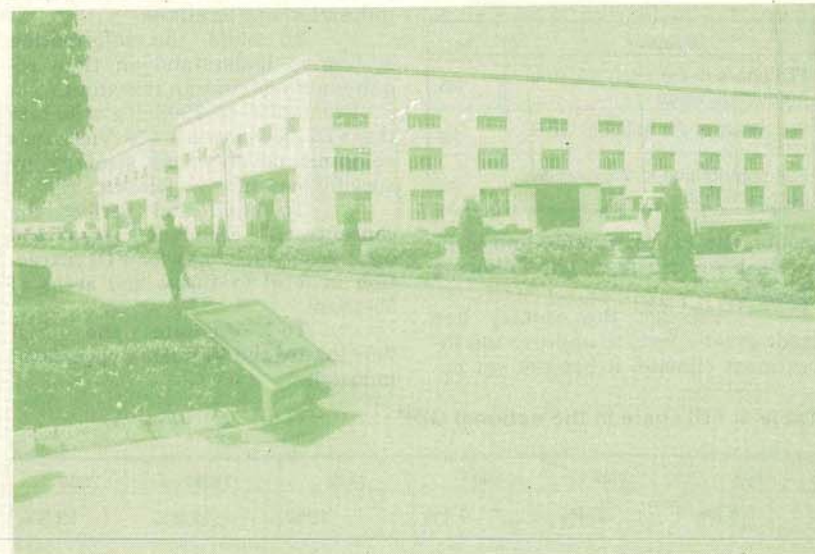
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I. INTRODUCTION

The level of a country's economic development success depends heavily upon its two underlying governmental systems, the economic and the political. The economic system provides the framework for the organization, management and control of the economy. The political system provides the framework for the selection of political and economic leaders and the scope of their authority over economic matters. The government of a country is formed by a unique combination of these two systems. This uniqueness must be well-defined and clearly explained to the people so that they know their roles and responsibilities in economic development. This definition and communication is known as "governmental transparency." A lack of transparency would create uncertainty as to what the people should do, and in turn would cause low economic performance.

The political and economic systems adopted by a country in the East Asia-Pacific region (CEAPR) frequently have their roots in that country's recent history and international politics. Colonialism, wars of liberation, the cold war, and international alliances had steered each CEAPR into a political and economic structure that best suits itself to achieve its most pressing national goal(s) in the past. At the dawn of the third millennium, with the extinction of colonialism in East Asia and the end of the Cold War, economic development has become the main focus of CEAPRs. The march toward economic prosperity has been very uneven among these countries due to the unique political and economic systems of each and the transparency of their governments, even though these countries share many common cultural and historical backgrounds.

This paper explains alternative economic systems, alternative political systems and governmental transparency in the context of economic development. It also examines a number of macroeconomic and transparency indices from reliable sources to determine whether there are strong associations between the governmental systems/transparency of CEAPRs and economic performance. Suggestions on what CEAPRs should do to improve their economic performance are also included.

II. GOVERNMENTAL SYSTEMS AND CEAPRS

The economic system of a country provides its government the framework for the organization, management and control of the economy. Currently, most countries of the world have adopted economic systems that are somewhere between two distinct economic systems known as "market economy" and "socialist economy." Very few countries are 100% market economy or 100% socialist. Some are much more market economy or socialist than are others. Vietnam's description of itself as a 'market-oriented socialist economy' is an excellent example of a socialist economy with more market economy traits. The following is a brief summary of the two economic systems:

(1) Market economy, earlier known as capitalism, is an economic system that is based on human self-interest and on the premise that what benefits individuals/consumers will benefit the country as a whole. Individuals concentrate on economic activities that satisfy them and consumers. Its basic foundations consist of private property rights, a free enterprise economy in which individuals and firms are relatively free to enter and exit a market, and prices that are determined by the forces of supply and demand. The underlying economic decision-making process is highly decentralized. In other words, individuals, businesses, governments or a combination of the three make important economic decisions.

(2) Socialism, earlier known as Marxism, is an economic system that is based on the theory of human economic equality in order to avoid exploitation of workers by uncontrolled greedy capitalists. The system is based on the premise that what is good for the country will be good for all of its individuals, and it bestows on the state all the power to control

the entire economy, such as determination of material and labor prices, capital investments, allocation of resources, distribution of goods and services, etc. Socialism prefers state-oriented property rights to individual ones, and the government owns all major economic resources of the country. The economic decision-making process is highly centralized and strictly controlled by the state. Lenin's implementation of socialism is more manufacturing-oriented and much closer to Marxism, while Mao's is more subsistence farming-oriented.

The political system provides the framework for the selection of political and economic leaders and the scope of their authority over economic matters. Currently, countries of the world use three distinct political systems for governance: multi-party, single-party and monarchy. The following is a brief summary of the three systems:

1. The multi-party system, commonly known as "democracy" or "Western democracy," is a system that champions the concepts of one-man one-vote, multi-party political representation, and laws created/approved by consensus among political parties. The multi-party system selects its political leaders using an electoral process approved by major parties. The system delegates the selection of economic leaders to the forces of the market that normally select innovators, entrepreneurs and venture capitalists to the controlling positions of the economy. Fully functional multi-party governments usually embrace the market-economy economic system; its role in the econ-

omy is quite limited and can be summarized as follows:

- Individuals are free to engage in any business activity, assuming that such activity is not prohibited by law and that government regulations are followed.

- The economic decision making process in a multi-party system is highly decentralized. The government concentrates on the development and maintenance of the legal and financial structure, including business regulations, while individuals and businesses concentrate on resource allocation, resource ownership, capital investments, determination of prices, etc.

- Individuals and businesses use rule of law and business ethics to guide them in dealing with each other.

- The government encourages individuals and private businesses to create as much real wealth as possible and collects income taxes to finance social and other programs.

2. The single-party system is one in which only one political party governs a country. The single party creates all laws and regulations, and is free to control the economy in any way it sees fit. The single-party system selects its political leaders using its own unique electoral process that may lack inclusiveness by Western standards. There are two different types of single-party government: communist and non-communist. Communist governments usually follow the Leninist approach in controlling the economy.

- The government chooses socialism as the foundation of the economy. Consequently, the economy is dominated by state-run enterprises.

Private enterprise is discouraged during the formative years of the government. When private enterprise is allowed, it typically undergoes an approval process that is lengthy and complex compared with the same process in wealthy industrialized countries.

- The government is very active in the economy and owns all major economic resources. It has monopolistic power over entry barriers into industries, determination of prices, allocation of resources, etc.

- The underlying decision making process is highly centralized, i.e., the communist party is the supreme decision-maker of all significant economic matters including selecting economic leaders for state enterprises.

Single-party non-communist governments usually choose the market economy system as their economic foundation. Some governments may embrace the market economy wholeheartedly, such as the cases of Singapore, Taiwan and South Korea from the 1950s-1990s. Other governments may create a highly monopolistic economy in which major industries are controlled by families and friends of the ruling party or the ruler, such as the cases of the Philippines and Indonesia from the 1950s-1990s.

3. A monarchy is a feudal system in which the head of the government is hereditary. The ruling royal family has a very significant role in the running of the country and the establishment of laws and business regulations. Like single-party non-communist governments, most monarchical governments adopt some degree of the market economy system.

CEAPRs are very diverse in political and economic systems. As for the political system, we label a CEAPR either "single- party" or "multi-party" when the country has institutionalized such a political system long enough so as to have a significant impact on its economic performance in 2000. Otherwise, it is given the label "other." As for the economic system, we label a CEAPR either "market economy" or "socialist" when the country has institutionalized the chosen economic system long enough so as to have a significant impact on its economic performance in 2000. Otherwise, the label "hybrid" is given. These assigned labels may not reflect efforts currently being made by many CEAPR governments to modify their political and economic systems. The following table shows sixteen CEAPRs and their political and economic systems.

Table 1: Political and Economic Systems

	Country Name	Political System	Political Reason	Economic System	Economic Reason
1	Cambodia	Other	Ruled by monarchy, communist, then monarchy since 1993	Hybrid	No clear direction on economic policies due to unstable politics
2	China	Single-Party	Ruled by communist party since 1949	Socialist	Chosen by the ruling party
3	Hong Kong	Other	British colony for 100 years; multi-party since 1997	Market	Practicing market economy for decades
4	Indonesia	Other	Ruled by single party from 1947-1999; multi-party since 1999	Hybrid	Unclear economic policies due to four decades of corrupt dictatorships and recent unstable politics
5	Japan	Multi-Party	Ruled by multi-party since late 1940s.	Market	Practicing market economy for decades
6	Korea, North	Single-Party	Ruled by communist party since 1948	Socialist	Chosen by the ruling party
7	Korea, South	Multi-Party	Ruled by military government from 1945 to mid-80s; multi-party since mid 80s	Market	Practicing market economy for decades
8	Laos	Single-Party	Ruled by communist party since 1975	Socialist	Chosen by the ruling party
9	Malaysia	Multi-Party	Ruled by multi-party since 1963	Market	Practicing market economy for decades
10	Mongolia	Other	Ruled by communist party since 1925 until became multi-party in 1995. Strong return of communist party since 2000.	Socialist	Strong socialist for decades; less socialist since 1995
11	Myanmar	Single-Party	Ruled by military government since 1962	Hybrid	Unclear economic policies due to political instability since 1962
12	Philippines	Multi-Party	Ruled by single party (Marcos from 1965-1986); multi-party since 1986	Hybrid	Unclear economic policies due to two decades of corrupt dictatorship and recent unstable politics
13	Singapore	Single-Party	Ruled by PAP (People's Action Party) since 1965.	Market	Practicing market economy for decades
14	Taiwan	Other	Ruled by single party from 1947-1996; multi-party since 1996	Market	Practicing market economy for decades
15	Thailand	Other	Ruled by constitutional monarchy since 1932	Market	Practicing market economy for decades
16	Vietnam	Single-Party	North Vietnam and all Vietnam ruled by communist party since 1945 and 1975, respectively.	Socialist	Chosen by the ruling party

III. GOVERNMENTAL TRANSPARENCY

In addition to economic and political systems, governmental transparency has much influence on the economic performance of a country. To be highly transparent, the government must define and communicate clearly its roles, responsibilities, its budgetary process, and its data collection and information creation process. The International Monetary Fund (IMF) provides the following guidelines on what governments must do to be highly transparent:

1. Clarity of Roles and Responsibilities: Establishing clear roles and responsibilities for the government and the rest of the public sector shows how well organized the government is.

2. Public Availability of Information on the Government: This availability helps individuals and businesses know who is accountable for what, and what economic activities are allowed and not allowed.

3. Open Budget Preparation, Execution, and Reporting: Because the annual budget is almost without exception the main instrument of governmental policy, the budget process and the contained information is central to governmental transparency. The budgetary information explains the scope of each government agency, as well as its roles and responsibilities.

4. Assurances of Integrity: It is essential for governmental transparency that fiscal data reported by the government meet basic criteria that attest to their quality, and that there are mechanisms in place which provide assurances to individuals and businesses concerning data integrity.

Transparency International, or TI has conducted extensive surveys of business people, academics and risk analysts, and published its findings every year- the Governmental Transparency Index (GTI). TI is the only international non-governmental organization devoted to improving governmental transparency. Its GTI ranges between 10 (most transparent) and 0 (least transparent). The following table provides a summary of CEAPRs, population sizes in millions, and GTI published by TI in 2000. Please note the scores included in the paper do not take into account current efforts to improve governmental transparency by many CEAPR governments. These efforts normally take years to show their economic results.

The second half of Table 2 examines the GTI of the thirteen richest

industrialized countries. It shows that GTI drops when the population of a country increases. The small-country group has the highest average GTI, 9.5, while the largest countries have the lowest average, 7.4, or a difference of 2 points. This fact should be taken into account when judging the transparency of larger countries. The main sources of GDP data come from the World Bank and the World Factbook published by the US government.

IV. EMPIRICAL EVIDENCE

Summaries of the economic performance of the 16 CEAPRs are included to show how countries with a wide range of political systems, economic systems and governmental transparency perform economically. The key common measure of economic performance is the PPP GDP (Gross Domestic Products) Per Capita.

Purchasing power parity (PPP) is a theory, which states that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services. When a country's domestic price level is increasing (i.e., a country experiences inflation), that country's exchange rate must depreciate in order to return to PPP. Due to high transportation and other transaction costs, prices of the same basket of goods and services in different countries may be significantly different from each other's. PPP rates are currency conversion rates that both convert to a common monetary unit (such as $US or $US equivalent) and equalize the purchasing power of different currencies. Thus, PPP rates eliminate the differences in price levels between countries in the process of currency conversion. The GDP data derived from the PPP method are better for comparisons of economic performance between countries because the over/under-valued currency factor is removed from the calculated GDP data. The collected PPP GDP per Capita data are in international dollars and from the year 2000. One international dollar has the same purchasing power as one US dollar. The main sources of GDP data come from the World Bank and the World Factbook published by the US government.

When grouping CEAPRs into three distinct political systems, we can see how each group of countries with the same political system performs economically. The average PPP GDP per Capita data indicate

Table 2: GTI of CEAPRs and Industrialized Countries

	Country Name	Pop. In Mils	GTI (Max=10)			Country Name	Pop. In Mils	GTI	PPP GDP per Capita
1	Cambodia	12	N/A		1	Norway	4	9.1	$27,700
2	China	1262	3.1		2	Singapore	4	9.1	$26,500
3	Hong Kong	7	7.7		3	Denmark	5	9.8	$25,500
4	Indonesia	210	1.7		4	Finland	5	10.0	$22,900
5	Japan	127	6.4		5	Hong Kong	7	7.7	$25,400
6	Korea, North	22	N/A		6	Austria	8	8.3	$25,000
7	Korea, South	47	4.0		7	Netherlands	16	8.9	$24,400
8	Laos	5	N/A		8	Canada	31	9.0	$24,800
9	Malaysia	23	4.8		9	France	59	6.7	$24,400
10	Mongolia	2	N/A		10	United Kingdom	60	8.7	$22,800
11	Myanmar	42	N/A		11	Germany	82	7.6	$23,400
12	Philippines	76	2.8		12	Japan	127	6.4	$24,900
13	Singapore	4	9.1		13	United States	282	7.8	$36,200
14	Taiwan	22	5.5						
15	Thailand	61	3.2					Average	
16	Vietnam	79	2.5		Pop.- 4-5 Mils		9.5	$25,650
					Pop.- 7-31 Mils		8.5	$25,075
					Pop.- 59 and >		7.4	$26,340
					All Industrialized		8.4	$24,425

that multi-party CEAPRs outperform single-party ones economically by a ratio of 2 to 1. Compared with the world, the economic performance of single-party CEAPRs is roughly the same level as that of the world average.

When grouping the countries into three distinct economic systems, we can see how each group of countries with the same economic system performs economically. The average GDP data indicate that market-economy countries outperform economically socialist and hybrid countries by ratios of 9 to 1 and 8 to 1, respectively. These are very strong associations between the two factors: Economic System and Economic Performance. Compared with the world, socialist CEAPRs trail the world average by a ratio of 2 to 7.

Table 3: Economic Performance of CEAPRs with Different Political and Economic Systems

In general, economic performance increases dramatically when the GTI increases, regardless of political or economic system, as indicated in the left part of Table 4. When embedding GTI values within each political system, there appears a high correlation between high transparency and high economic performance. In other

Table 3: Economic Performance of CEAPRs with Different
Political and Economic Systems

	Country Name	Political System	PPP GDP PC	Country Name	Economic System	PPP GDP PC
1	Japan	Multi-Party	$24,900	China	Socialist	$3,600
2	Korea, South	Multi-Party	$16,100	Vietnam	Socialist	$1,950
3	Malaysia	Multi-Party	$10,300	Mongolia	Socialist	$1,780
4	Philippines	Multi-Party	$3,800	Laos	Socialist	$1,700
5	Hong Kong	Other	$25,400	Korea, North	Socialist	$1,000
6	Taiwan	Other	$17,400	Singapore	Market	$26,500
7	Thailand	Other	$6,700	Hong Kong	Market	$25,400
8	Indonesia	Other	$2,900	Japan	Market	$24,900
9	Mongolia	Other	$1,780	Taiwan	Market	$17,400
10	Cambodia	Other	$1,300	Korea, South	Market	$16,100
11	Singapore	Single-Party	$26,500	Malaysia	Market	$10,300
12	China	Single-Party	$3,600	Thailand	Market	$6,700
13	Vietnam	Single-Party	$1,950	Philippines	Hybrid	$3,800
14	Laos	Single-Party	$1,700	Indonesia	Hybrid	$2,900
15	Burma	Single-Party	$1,500	Myanmar	Hybrid	$1,500
16	Korea, North	Single-Party	$1,000	Cambodia	Hybrid	$1,300

	Average
Single-Party	6,042
Multi-Party	13,775
Other	9,247
World	7,200

	Average
Socialist	2,006
Market	18,186
Hybrid	2,375
World	7,200

words, the GDP Per Capita climbs higher and higher as the GTI climbs higher and higher within each political system and within each economic system. There is one exception: South Korea, which has smaller GTI than Malaysia, but much higher GDP per Capita. This can be explained by the fact that South Korea has a larger population than that of Malaysia. More populous countries have greater difficulty in obtaining high GTI scores than smaller countries, as indicated by Table 2. AAdjusting for higher population, South Korea should have the same or higher GTI score than that of Malaysia.

Table 4:

V. CONCLUDING REMARKS

The empirical evidence presented indicates that there are very strong associations between economic performance and economic system. The associations between economic performance and political system are much weaker. Next, economic performance improves dramatically within each political system and each economic system as governmental transparency increases. The findings can provide a simple guideline to government leaders of CEAPRs with low economic performance, as follows:

Significant economic development begins with a functional government, and that can only happen when there is political stability. Anarchy prevails in the absence of a strong government (e.g., post-Soviet invasion Afghanistan, Somalia in the

Table 4: Economic Performance and GTI of CEAPRs

	Country Name	GTI	GDP	Country Name	Political System	GTI	GDP	Country Name	Economic System	GTI	GDP
1	Cambodia	N/A	$1,300	Japan	Multi-Party	6.4	$24,900	China	Socialist	3.1	$3,600
2	China	3.1	$3,600	Malaysia	Multi-Party	4.8	$10,300	Vietnam	Socialist	2.5	$1,950
3	Hong Kong	7.7	$25,400	Korea, S.	Multi-Party	4.0	$16,100	Mongolia	Socialist	N/A	$1,780
4	Indonesia	1.7	$2,900	Philippines	Multi-Party	2.8	$3,800	Laos	Socialist	N/A	$1,700
5	Japan	6.4	$24,900	Hong Kong	Other	7.7	$25,400	Korea, N.	Socialist	N/A	$1,000
6	Korea, N.	N/A	$1,000	Taiwan	Other	5.5	$17,400	Singapore	Market	9.1	$26,500
7	Korea, S.	4.0	$16,100	Thailand	Other	3.2	$6,700	Hong Kong	Market	7.7	$25,400
8	Laos	N/A	$1,700	Indonesia	Other	1.7	$2,900	Japan	Market	6.4	$24,900
9	Malaysia	4.8	$10,300	Cambodia	Other	N/A	$1,300	Taiwan	Market	5.5	$17,400
10	Mongolia	N/A	$1,780	Mongolia	Other	N/A	$1,780	Malaysia	Market	4.8	$10,300
11	Myanmar	N/A	$1,500	Singapore	Single-Party	9.1	$26,500	Korea, S.	Market	4.0	$16,100
12	Philippines	2.8	$3,800	China	Single-Party	3.1	$3,600	Thailand	Market	3.2	$6,700
13	Singapore	9.1	$26,500	Vietnam	Single-Party	2.5	$1,950	Philippines	Hybrid	2.8	$3,800
14	Taiwan	5.5	$17,400	Laos	Single-Party	N/A	$1,700	Indonesia	Hybrid	1.7	$2,900
15	Thailand	3.2	$6,700	Myanmar	Single-Party	N/A	$1,500	Burma	Hybrid	N/A	$1,500
16	Vietnam	2.5	$1,950	Korea, N.	Single-Party	N/A	$1,000	Cambodia	Hybrid	N/A	$1,300

early 90's) and destroys all prospects for economic development. Thus, any form of functional government is preferred over anarchy. Even though CEAPRs collectively enjoy national sovereignty, peace, and tranquility for first time in two centuries, many are still politically unstable compared with Europe and North America. The sources for instability may come from external forces (historical, regional and/or foreign adversaries) and/or internal forces (inability of political parties to cooperate or lack of inclusiveness from the ruling single party). Politically unstable CEAPRs must do their best to bring more stability to their countries, and for many this is the highest priority.

Regardless of the adopted political and economic systems, CEAPRs must continue to strengthen their governmental transparency. Data from Table 4 show that economic performance increases dramatically with high governmental transparency in all forms of political and economic systems.

For those CEAPRs whose economic system is not fully market-economy, they must move toward the market-economy system or institutionalize as many market-economy measures as possible in order to elevate their economic performance. Data from Table 3 indicate that market economy countries outperform non-market-economy countries by large ratios, 9-to-1 for market economy over socialist and 8-to-1 for market economy over hybrid.

The multi-party system offers two practices that have helped transform the economies of all wealthy industrialized CEAPRs (Hong Kong, Japan, South Korea, and Singapore) when they are wholeheartedly embraced.

- Individuals are allowed to engage in all businesses that are not explicitly prohibited by law assuming that they conform to reasonable government regulations.

- The government encourages individuals and businesses to create as much real wealth as possible, and develops a fair and effective tax system to collect taxes to support social and other programs.

The multi-party political system typically works well in a country with established economic performance, or a country with a strong democratic tradition, such as the United Kingdom and its offshoot countries (USA, Canada, Australia and New Zealand). The road to multi-party with high economic performance is quite different among large

CEAPRs. The USA at the end of World War II imposed the multi-party system on Japan, a practice that no sovereign CEAPRs are willing to accept today. South Korea and Taiwan voluntarily moved from single-party (military government) to multi-party when they reached a high level of economic performance. The stories of South Korea and Taiwan suggest that single-party populous CEAPRs with low economic performance should first concentrate on multi-party economically oriented measures to transform the economy. When the performance approaches a high threshold, such as PPP GDP per

Capita of $US 10,000, then begin to seriously examine whether the multi-party political system is right for the country, and how to best institutionalize this system to further elevate their economic performance to that of wealthy industrialized countries.

When closely examining the demographics of new wealthy industrialized CEAPRs that have successfully transformed their economies from agricultural to industrial since World War II, a new significant factor emerges, population size. Table 5 shows that new wealthy industrialized CEAPRs are those with market economy systems and relatively small populations. The smaller population an industrialized CEAPR has, the higher governmental transparency and economic performance it obtains. Thus, populous CEAPRs should consider creating economically autonomous regions that act like small countries within a country in economic development. This model resembles that of the United States, a populous country that is divided into many economically autonomous regions known as "states," with the state governments free to pursue their own economic development agendas without interference from the federal government. This model has a side effect: large income disparities among the states. To mitigate this problem, the US federal government uses income transfer programs to aid poor states. As a result, poor states also benefit a

great deal from the excellent economic performance of wealthy states.

In summary, the working order for national economic development for CEAPRs with low economic performance is: political stability, improvement of governmental transparency, institutionalization of market economy measures (for socialist and hybrid CEAPRs), institutionalization of proven multi-party economically oriented measures (for single-party CEAPRs), and creation of small economically autonomous regions (for populous CEAPRs). The sooner the governments can successfully implement the above steps, the sooner their people can engage vigorously and enthusiastically in economic development activities that lead to the "good life" that is quite common in wealthy industrialized countries. ∎

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Table 5: Demographics of New Wealthy Industrialized CEAPRs

Country Name	Pop.In Mils	Economic System	GTI	PPP GDP PC
Singapore	4	Market	9.1	$26,500
Hong Kong	7	Market	7.7	$25,400
Taiwan	22	Market	5.5	$17,400
Korea, South	47	Market	4.0	$16,100
Average	20			$21,350