Political Economy Approach of Institutional Research

liu, michelle yan

Dongbei University of Economics and Finance

October 2016

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Michelle Yan Liu
Dongbei University of Economics and Finance
Dalian, China
October, 2016

Abstract

      Institutional research should be ready to move to the next stage, a stage that is, as argued by this paper, characterized by a more comprehensive approach integrating economics, politics, and social culture. The theoretical foundation for such a move exists, as the interconnection between political institutions and economic institutions has been addressed by North, Fukuyama, and Acemoglu, and the influences of cultural heritage on institutional choices have further been mentioned by North and Huntington. Another shift in institutional research proposed by this paper is a change from general to specific solutions because the institutional characteristics become individualized after considering the impacts of culture heritage.

      This paper presents the correlations between political and economic institutions and the unique characteristics of political orders taking different developmental paths using a data analysis based on the World Governance Index (WGI) and other development indicators. The paper also discusses the influences of cultural heritage on institution's choice of transformation path and proposes a institutional research framework.

Keywords: Institutional Economics, Political Economy, Comparative Economic System,
                Comparative Political System, World Governance Index (WGI)
JEL: O43, P26, P51

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1. Introduction

Institutional research has achieved outstanding results in the last few decades, and with the support of the empirical works such as Acemoglu et al. (2002), Acemoglu et al. (2014), Henisz (2000), Rodrik et al. (2002), Tavares and Warcziarg (2001), Varsakelis (2006), the conclusion that institutions matter for economic and social development has been well accepted among academicians and policy makers. However most of these studies, based on samples of up to a hundred countries, conclude with general statements that apply to all countries, and the individual characteristics of institutional groupings for different countries have not been further explored. Moreover, most studies concentrate on the impacts of political and economic institutions on income levels and GDP per capita growth rates and the interconnections between political and economic institutions are not sufficiently addressed theoretically or empirically.

This paper contributes to the institutional research literature in two prospects. First, this paper takes a political economy approach to analyses institutions and recognizes the different views on development between the political economy approach and the pure economics approach. The coherence between political and economic institutions is examined and the paper argues that the development of political institutions has its own means. The World Governance Index (WGI), developed by Kaufmann, Kraay, and Mastruzzi, includes six divisions of measurements and has been widely used as a proxy of political institutions. In this paper, WGI is taken as a performance measurement of political order development. Following Fukuyama's political order theory, WGI is restructured into 3 parts: The State, Rule Of Law, and Accountable Government. The characteristics of the political order for countries grouped by different average income levels are then presented. Second, this paper, by taking an individualized analysis approach, discusses the unique institutional characteristics of the three groups of countries, include total development group, CEE group, fast development group. Furthermore, the paper explains the role of knowledge and cultural heritage in the transformation of institutions. Finally the paper presents a purposed instructional research frame

WGI covers six dimensions of governance quality:

Ⅰ   Voice and accountability (VA) – captures perceptions of the extent to which the citizens of a country are able to participate in selecting their government, in addition to freedom of expression, freedom of association, and freedom of the media.

Ⅱ   Political stability and absence of violence/terrorism (PV) – captures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism.

Ⅲ   Government effectiveness (GE) – captures perceptions of the quality of public services, the quality of civil services, and the degree of the government's independence from political pressures and includes the quality of policy formulation and implementation and the credibility of the government's commitment to such policies.

Ⅳ   Regulatory quality (RQ) – captures perceptions of the government's ability to formulate and implement sound policies and regulations that permit and promote private sector development.

Ⅴ   Rule of law (RL) – captures perceptions of the extent to which agents have confidence in and abide by the rules of society, with particular attention to the quality of contract enforcement and property rights, the quality of the police and the courts, and the likelihood of crime and violence.

Ⅵ   Control of corruption (CC) – captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, and the degree to which government functions are controlled by state elites and private interests.

All six indicators are based on a -2.5 to 2.5 scale, in which 2.5 denotes the strongest governance and -2.5 denotes the weakest.

WGI data are available from 1996 to 2013, and thus the other economic and social indicators are also selected for this eighteen-year time period. Countries are classified by World Bank Income Category. Economic data are from the World Bank database; other measurements include the Human Development Index published by the United Nations, The Global Innovation Index published by Cornell University, and The Global Competition Index published by the World Economic Forum.

This paper includes six sections in total. The next section presents the political economy approach to institutional analysis. Section three demonstrates the special characteristics of political institutions for the four groups of countries. Section four discusses the role of knowledge and cultural heritage in the evolution of institutions. An institutional research framework is presented in section 5 along with the policy implications of this study. Finally, the paper is concluded in section six

2. The Political Economy Approach to Institutional Analysis

The political economy approach takes a different view to development, emphasizes the interconnections between economic and political institutions and recognizes the independent purpose behind the development of political institutions. Moreover, because political institutions are endogenous, political economy approach pay more attention on the individual characteristics of social institutions and its caused and consequences

2.1 View on development

In political economy theory, development is considered in a much broader sense than from a purely economic view. Sen views development as the process of expanding real freedoms. He believes that the goal and purpose of development is not the simple process of wealth accumulation but instead should capture the full development of a human being: "Greater freedom enhances the ability of people to help themselves and also to influence the world, and these matters are central to the process of development. ..... The success of a society is to be evaluated, in this view, primarily by the substantive freedoms that the members of that society enjoy" (Sen, 1999). Freedom is viewed as both (1) the *primary end* and (2) the *principal means* of development. Any types of underdevelopment, such as continuous famines, malnutrition, insufficient health care, inequality, systematically denied political liberty or basic human rights, and disadvantaged people in developed countries are all forms of unfreedom (Sen, 1999).

Fukuyama also emphasized the idea of total development: "successful modernization depends, then, on the parallel development of political institutions alongside economic growth, social change, and ideas... Development is not only about economics. Political institutions develop, as do social ones. Sometimes political and social developments are closely related to economic change, but at other times they happen independently." (Fukuyama, 2012)

Pure economic approach take GDP per capita as the measurement for development and the weakness of this measurement has been raised in the economic research in recent years because this measurement does not provide any information on how the wealth is generated, distributed, and the cost of the wealth generation. To measure the total development of a society a more comprehensive measurement is required. WGI, in this paper, is adopted to measure the political development of a society.

Data charts in Appendix Fig-1 show that the positive relations between the income level and WGI are existing in High Income Countries, although a few resources rich countries are departure from the trend which could be because the high wealth of these countries are mainly from the resources endowment rather that the good quality institutions. Although as the group Lower Income Countries generally have lower WGI scores, but the relationship between GDP per capita and WGI are not so clear in Up-Middle Income Countries and Low-Middle Income Countries. For example the WGI score for Mauritius is 0.85, that is higher than WGI scores of many High Income Countries, but its income level is only around the

middle level in Up-Middle Income Countries. Lesotho and Mongolia, the members of Low Middle Income Countries, have the similar WGI scores but the income level of Mongolia is four times of Lesotho's. This data analysis indicates that in most High Income Countries the higher income level associates higher WGI scores, however, the quality of institution may not be a good explaining for developing countries and the income gap between these countries could be caused by other reasons.
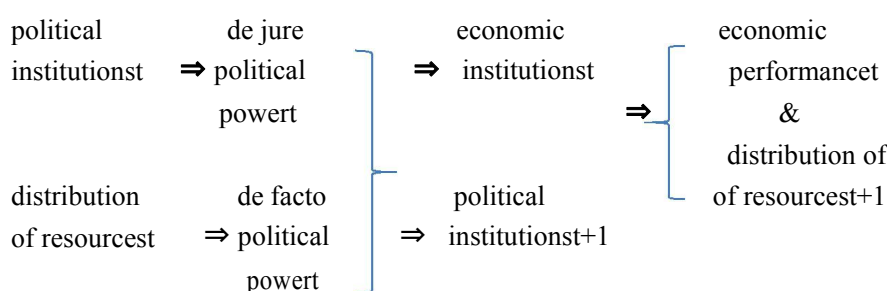
Table 2-1   Statistics for WGI and GDP per Capita

		High Income	Up-Mid Income	Low-Mid Income
Number of countries		56	50	49
GDP per capita 2013	Mean STD	36281 23921	7014 3302	1907 1282
WGI 2013	Mean STD	1.0222 0.5346	-0.2358 0.5669	-0.604 0.4474

2.2 Internal connections between political and economic institutions

The natural connections between political and economic institutions are well addressed in the institutional and political economy theories: "Broadly speaking, political rules in place lead to economic rules, though the causality runs both ways. That is, property rights and hence individual contracts are specified and enforced by political decision-making, but the structure of economic interests will also influence the political structure" (North, 1990).

Acemoglu et al. (2005) presented a model that clearly demonstrates the connections between economic and political institutions

$$
\begin{array}{l}
\text{political institutions}_t \Rightarrow \text{de jure political power}_t \\
\text{distribution of resources}_t \Rightarrow \text{de facto political power}_t
\end{array}
\left\} \Rightarrow \text{economic institutions}_t \Rightarrow
\begin{array}{l}
\text{economic performance}_t \\
\& \\
\text{distribution of resources}_{t+1}
\end{array}
\right.
$$

$$
\Rightarrow \text{political institutions}_{t+1}
$$

Acemoglu and Robinson (2012) further classified institutions as inclusive or extractive and stated that "Inclusive economic institutions are in turn supported by, and support, inclusive political institutions… extractive economic institutions are synergistically linked to attractive political institutions."

Table 2-2 is a statistical summary of Political Right (PR), represented by VA in WGI; and Economic Right (ER), represented by the part of Fraser's Economic Freedom Index (legal system & property rights and freedom to engage in international trade) for all income levels.

Table 2-2   Statistics for Political Right (PR) and Economic Right (ER)

		High Income	Up-Mid Income	Low-Mid Income
Number of countries		41	27	17
Average ER, 2013	Mean STD	7.6439 0.6872	5.8816 2.8869	5.6330 1.6920
Average PR, 2013	Mean STD	1.0583 0.2562	0.0387 0.7010	-0.4035 0.2202

Fig-2 in the Appendix shows that political and economic right are positively related for all income levels. However, the countries/economies listed in Table-2-2-A show a significant departure from the trend, as they have higher ranks in Economic Right but lower ranks in Political Right; by contrast, Argentina has much higher Political Right and very low Economic Right. According to the political theories of AJR, Fukuyama, and Sen, broadly distributed political right is the precondition of broadly distributed economic right, but these countries do not satisfy such political logic. This abnormal phenomenon indicates that inclusive economic institutions could be supplied by exclusive political institutions. Acemoglu and Robinson acknowledged this possibility, but they also argued that this type of institutional mismatch would not be sustainable (Acemoglu and Robinson, 2012). However, the reality is that Hong Kong and Singapore have maintained half a century of stable economic growth with such a mismatch, and China saw a similar result over 30 years. Section 4 will discuss this finding from a cultural and heritage perspective. These special cases further demonstrate that institutional characteristics vary across countries and that general theories may be applicable for most cases, but not all.

Table 2-2-A: Higher Economic Right (ER) and lower Political Right (PR)

Countries	Code	Income Group	ER	ER ranks in the Group	PR	PR ranks in the Group
Oman	OMN	High	8.72	4	-1.00	40
Hong Kong	HKG	High	8.38	7	0.70	33
Singapore	SGP	High	8.31	8	0.06	38
Kuwait	KWT	High	7.65	21	-0.65	39
Jordan	JOD	Up-Middle	7.05	3	-0.82	21
China	CHN	Up-Middle	6.21	10	-1.58	26

(High Income is a 40-countries group, Upper-Middle Income is a 28-countries group)

2.3 The ends and means of the development of political institutions

Political institutions are not developed for the narrow purpose of delivering economic institutions; they have their own purpose, which is an issue of political morality. Both Eastern and Western civilizations have a long history of political moral beliefs, and these philosophies have guided political evolution for thousands of years.

In the Aristotelian view, the state is a moral entity: it should aim at securing the public preconditions to make possible a "good and decent" life for citizens. Hence, justice ought to provide the foundation of any polity. The fundamental value of political philosophy is the public interest or the commonweal. The public interest would be entirely realized if social organization were such that each individual in a society is in a position to realize his specific natural potential, i.e., to live a good and decent life (Bortis, 1997).

Political systems in Ancient China were fully based on morality, the only constraints to the ruling power was moral conduct. "The first principle of government, in the view of Confucius, is as the first principle of character—sincerity. Therefore, the prime instrument of government is good example: the ruler must be an eminence of model behavior, from which, prestige imitation, right conduct will pour down upon his people." (Durant, W.A. 1993)

Political moral philosophy continues to play an important role in modern political theory. In his very influential work <<The Theory of Justices>>, Rawls points out that "justice is the first virtue of social institutions, as truth is of systems of thought. A theory however elegant and economical must be rejected or revised if it is untrue; likewise laws and institutions

no matter how efficient and well-arranged must be reformed or abolished if they are unjust"
(Rawls, 1971).

Fukuyama defines the political order in three divisions: 1. The State; 2. The Rule Of
Law; 3. Accountable Government. WGI thus is redefined according to Fukuyama's political
order:

WGI	Fukuyama's Political Order
RL	Rule of law
VA	Accountable Government (AccG)
Average of (PS, GE, REG, CC)	State

Table 2-3 Statistics of Political Order, 2013

		High Income	Up-Mid Income	Low-Mid Income
Number of countries		56	50	49
Rule of law	Mean	1.02	-0.49	-0.75
	STD	0.0737	0.8599	0.4862
AccG	Mean	1.01	-0.10	-0.41
	STD	0.2326	0.7010	0.7192
State	Mean	1.01	-0.29	-0.59
	STD	0.0560	0.6962	0.4286

Fig-3 in the Appendix show the three parts political order are supported each other.
Rule of the law and democracy support the quality of government and the democracy and
rule of the law also support each other. In High Income Countries there are a few
countries/economies are out of the trends, include Singapore, Hong Kong, Macao, and those
resources rich countries. The positive relations are also much looser in the up-middle
income countries and low-middle income countries.

3. Characteristics of the Political and Economic Institutions for Four Unique
Groups

One of the major contributions made by D. North to institutional theory is the theory of
path dependence in institutional change: "Path dependence is the key to an analytical
understanding of long-run economic change. Path dependence comes from the increasing
returns mechanisms that reinforce the direction once on a given path. Alterations in the path
come from unanticipated consequences of choices, external effects, and sometimes forces
exogenous to the analytical framework. Reversal of paths (from stagnation to growth or vice
versa) may come from the above described sources of path alteration, but will typically occur
through changes in the polity." (North, 1990)

Path dependence theory inspires us to argue that institutional characteristics and the
evolutionary process should be individualized to each nation, as each nation has its own past
experiences. A general description may cover some common features, but unique characteristics
must exist for a unique experience. This section discusses four groups of countries with unique
political and economic institutional characteristics.

3.1 The total development group

Fukuyama uses the term of "getting to Denmark" to refer to the goal of political order
development. "Denmark" in this context is a mythical place that is known to have good
political and economic institutions: it is stable, democratic, peaceful, prosperous, inclusive,
and has extremely low levels of political corruption (Fukuyama, 2012).

A group of twenty-one countries meet the attributes of "Denmark". They are at the top level for both wealth and the quality of institutions. Their ranks in terms of wealth (GDP per capita), institutional quality (WGI), and Human Development (HDI) are all in the top 30 in the total sample of 161 countries. Two countries in this group are not in the top 30 for innovation, and six countries are not in the top 30 for competition (see Appendix Table -1).

Eighteen out of twenty-one countries in this group have a Western cultural background. There are many great works that describe the evolutionary process of Western Europe. In his influential book <<The Origin of Political Order>> Fukuyama describes in detail how belief in the rule of law and individualism emerged from religion, and how and why nation states were established much later in Europe than in China. As Fukuyama points out, "Modern political institutions appeared far earlier in history than did the Industrial Revolution and the modern capitalist economy… The roots of Western social modernization were thus laid several centuries before the rise either of the modern state or the capitalist market economy." Fukuyama further notes that the "early development of law in Europe was also very important in establishing limits to state power. The very lateness of the European state-building project was the source of the political liberty that Europeans would later enjoy." (Fukuyama, 2012)

The journey of these countries is unique, and it is impossible to copy thousands of years of cultural roots; therefore, what can the rest of the world learn from this successful experience? The three Asian economies in this group provide a good "catch up" example. They do not possess Western cultural roots; instead, they are culturally strongly influenced by Confucianism. However, the WGI scores of Singapore and Hong Kong are even higher than the WGI score of US.

Originally, these focus institutions were not fully endogenous in these three Asian economies; they were either adopted by the ruling elites or were forced upon these countries by foreign nations. However, these institutions could be smoothly implemented in part due to the inclusive nature of Confucianism. For thousands of years, Confucianism has co-existed and benefited from mutual enrichment with many "foreign" philosophies. Moreover, the philosophical concepts of natural law, human dignity, and justice equally exist in traditional Asian values; they are merely institutionalized in different formats. Thus, an institutional set such as that represented by WGI has no conflicts with Asian beliefs and values.

Nevertheless, the influence of tradition is still visible in the characteristics of political order. Singapore and Hong Kong are ranked very high in rule of law and government capacity, but are ranked very low in VA. For Japan, the six WGI divisions are about evenly ranked. Macao, Korea, and Taiwan are not included in this total development group because their WGI ranks are below the top 30 and there is no economic data in the World Bank database for Taiwan. However, their political order has similar characteristics to the above three economies, with the RL and government capacity being ranked higher than VA.

Table 3-1 Rank Scores of GDP per capita and WGI each divisions for East Asian developed economies

Country	Code	GDP PC	WGI	VA	RL	PS	GE	REG	CC
Macao. SAR, China	MAC	4	56	105	49	49	37	21	76
Singapore	**SGP**	**10**	**11**	**81**	**11**	**6**	**2**	**1**	**4**
Japan	**JPN**	**29**	**23**	**26**	**21**	**60**	**22**	**27**	**32**
Hong Kong SAR, China	**HKG**	**30**	**17**	**51**	**18**	**40**	**10**	**2**	**16**
Korea Rep	KOR	32	41	53	37	70	33	36	52

Taiwan, China	TWN	-	30	47	28	45	30	28	49

According to political theory, democracy and the rule of law provide the necessary constraints on the ruling power. In the cases of Hong Kong and Singapore, the very high government quality is mostly supported by one source of constraint: the rule of law. This phenomena will explained from culture heritage prospect in next section

3.2 The CEE countries group

There are nine CEE countries in this group: Estonia, Czech Republic, Slovenia, Poland, Lithuania, Slovak Republic, Latvia, Croatia, and Hungary. Eight of these nine joined the EU in 2004 (see Appendix Table -2).

These countries are a good example of development through the transfer of institutions. Their major institutions were transferred during the later 1980s and early 1990s, which is outside of the time frame of this study. However, the WGI data indicate that seven out of nine countries are continuing to improve institutional quality and that all nine countries improved competitive capacity over these eighteen years. The GDP per capita growth rate is much higher than that of the first group, but the standard deviation (STD) of the growth rate is also high.

Kornai (2005) summarizes six characteristics of CEE transformation:

1. and 2. The changes followed the main direction of the development of Western civilization: in the economic sphere, change was in the direction of a capitalist economic system, and in the political sphere, change was in the direction of democracy.

3. There was a complete transformation, parallel in all spheres: in the economy, in the political structure, in political ideology, in the legal system and in the stratification of society.

4. The transformation was non-violent.

5. The process of transformation took place under peaceful circumstances. It was not preceded by war. The changes were not forced upon society as a result of foreign military occupation.

6. The transformation took place with incredible speed, within a time frame of ten to fifteen years.

Kornai observed that "the presence of all six characteristics together is unique in world history" (Kornai, 2005). Such a perfect transaction must have occurred for unique reasons; section 4 explains this transformation taking a cultural heritage point of view.

3.3 The fast growth group

This group is composed of countries ranked within the top 20 for GDP per capita growth rates; all of them achieved over 5% annual growth for the eighteen-year period (see Table -3 in Appendix).

Some countries in this group are "high income" countries, such as Macao, Estonia, Lithuania, and Latvia; they are still ranked at the top for their growth rate. The rest of this group are mainly developing Asian and CIS countries. The rapid growth of some countries were combined with improvement in the WGI, for example, most CIS countries and the Asian countries of Myanmar and Cambodia. However, other countries did not see this improvement in WGI, such as China, Vietnam, Lao PDR, and Mongolia. The average GDP per capita growth rate of China for this eighteen-year period is 8.78, with a STD of 1.9, and the STDs of the growth rate for Lao PDR and Vietnam are even lower than that of China. The WGI of China, Vietnam, and Lao PDR were all worsened over the eighteen years.

Table 3-3-A   Percentage change in WGI for each division 1996-2013

Countries	Code	VA	RL	PS	GE	REG	CC
CHINA	CHN	-21.82	-5.67	-227.91	88.21	-127.10	-41.02
INDIA	IND	2.02	-138.19	-30.15	-132.31	-7.41	-39.09

LAO PDR	LAO	-68.33	21.40	-71.72	-12.86	33.10	-90.27
VIETNAM	VNM	-24.20	-20.79	-45.36	35.92	-23.82	-23.69
MONGOLIA	MNG	-78.91	-875.97	-24.75	-37.51	-52.67	-271.27

How could such low volatility and high-speed growth were achieved over eighteen years without the upgrading of institutions? There should be institutions not captured by the WGI that explain this growth. These countries experience also demonstrates that the fast economic growth could happened without the good political order condition, the economic development and political development, although closed connected, but still have their own path and cause.

4. The Role of Knowledge and Culture in Institutions Transformation

Kornai (2005) summarizes the different characteristics some major historical transformations, three of them are related to this study:

Table 4-1 Characteristics of transformations --- from Kornai (2005)

Characteristics of transformation	CEE region	China: Transformation after Mao	From the Middle Ages to Modernity, from pre-capitalism to capitalism
1 Mainly towards development of the economic system?	yes	yes	yes
2 Mainly towards development of the political system?	yes	No	yes
3 Parallel in all spheres?	yes	No	Yes (with time lags)
4 Without violence?	yes	yes	No
5 Without foreign military occupation?	yes	yes	No
6 Rapid?	yes	no	No (very long period)

These six attributes state the facts, but do not provide the reasons for these characteristics. Two more attributes should be added to this list: The Roles of Knowledge and Cultural Heritage. These two attributes could be the drivers behind the above six facts.

4.1 Accumulated knowledge or borrowed knowledge

Prior to the period of industrialization, there was no model of modern society for Europe. From the Great Charter in the 13th century to mass democracy in the 20th century, each step towards broadly distributed political and economic rights was driven by new political and economic forces that were seeking their interest and protecting their rights. The evolution of institutions was the result of a long period of political and economic competition between and within the nations. The modernization of Europe represented a journey of several hundreds of years of experimentation and self-correction. The full set of institutions represented by WGI is an accumulation of hundreds of years of institutional reforms.

Combined with this institutional evolution was consistent knowledge creation. The great achievements of the natural sciences and social science built up the foundation for the development of technology and institutions. Without Enlightenment and the philosophical works of John Locke, Jean Jacques Rousseau, John Mill, etc., it was unlikely that an inclusive political and economic institution could have been established.

Europe's modernization was not peaceful because the institutions were not pre-designed; they were the compromise results of all types of competition. Europe's modernization was slow because it was a process of constant exploring and learning.

The institutional changes for CEE and for the developed Asian countries/economies, such as Japan, Singapore, Hong Kong, Macao, Taiwan, are instead examples of adopting existing knowledge. They do not represent Hayek's spontaneous change; rather, they were changes driven by the ruling elite or new political forces who accepted Western political ideology and philosophy and led institutional change in a top-down format. Therefore, these transformations could be completed in a short period of time.

4.2 Heritage values and norms

The successful and peaceful implementation of a "borrowed" institution depends on how coherent the foreign institution is with the prevailing local value norms or the local informal institutions. The transformation process for both developed Asian countries/economics and the CEE were smooth and peaceful. Although the CEE countries experienced a different political system in the 20th century, they still share deep cultural roots with Europe, such as Christianity and German civil law. So "returning to Europe" was not only a process of institutional change, but was also a process of culture and values "returning home". This transfer was peaceful because the political ideology and the social cultural values were coherent; and this transfer was fast because these countries directly adopted already existing knowledge.

Influenced by the Confucian culture, many Asian countries/economics have a similar political culture. First, they have a strong state. Fukuyama gives a very detailed explanation of the political system of Ancient China. "Different from Europe where individualism and the rule of law emerged much earlier than the modern state, China alone created a modern state in the terms defined by Max Weber two thousand years ago. That is, China succeeded in developing a centralized, uniform system of bureaucratic administration that was capable of governing a huge population and territory when compared to Mediterranean Europe." "The Chinese state was centralized, bureaucratic, and enormously despotic. In China, the state was consolidated before other social actors could institutionalize themselves" (Fukuyama, 2012).

The second factor to consider for Asian countries/economics is rule of law. As a philosophical concept and an administrative tool, rule of law has been in place for thousands of years. "Law is the authoritative principle of the people and is the basis of government; it is what shapes the people. Trying to govern while eliminating the law is like a desire not to be hungry while eliminating food, or a desire not to be cold while eliminating clothes, or a desire to go east while one moves west. It is clear enough that there is no hope of realizing it." ----- Book of Emperor Shang, 商君书, 16th -11th century B.C. (Coase and Wang, 2012).

Unlike rule of law in Europe, rule of law in Ancient China did not originate with religion, but instead grew from the philosophy of natural law. The concepts of natural law and the relations between natural law and human law were well addressed in the "Spring and Autumn" philosophies, such as the works of Laozi, Mengzi, and the Huang Lao Philosophy.

Regarding an accountable government, Ancient China relied on a moral standard rather than on law and democracy. Confucius believed that the country should be ruled by well-educated self-disciplined elites. These elite rulers should use their power for the public interest and not for themselves. If they abused their power, then the people would have the right to push them out of their ruling position. Confucius had a full self-enlightenment system to train the ruling elites. "The literati gentry class, "士", had a unique social, political, and cultural status that cannot be found in any other historical civilization. This literati class essentially ruled China during much of history. The personality they should possess is *wealth and fame never mean much to him, poverty and obscurity never sway him, and imposing forces never awe him*" (Coase and Wang, 2012).

Two aspects of Ancient China's political system and modern society have clear differences. First, the legal system in Ancient China was an administrative tool and did not have the political function of constraining power. The second difference is in the relationship between

the ruler and the masses. From Ancient Greece to Medieval Italy, Europe has had a tradition of self-governed cities or communities. In Ancient China, because the state was established very early, it possessed an almost "holy" meaning in the political order. People in Ancient China left public affairs in the hands of "benevolent" rulers rather than managing them themselves. They expected their rulers to carry public duties for the public interest, as they were trained in this way. Justice was available to the masses because they depose the crown using the power of natural law if they found that their ruler abused his duty, as such behaviour was against the benevolent rule of heaven. However, this type of justice was often realized through violence.

Confucianism dominated Ancient China's political system for thousands of years and influenced many Asian countries as recently as the last century, when Western ideology entered Asia. Since Confucianism left the center stage of the political system, no new philosophies have emerged in Asia, and most Asian countries have adopted various Western philosophies during the process of modernization. With the inclusive nature of their traditional philosophies and similar core values, Japan, Singapore, Hong Kong, South Korea, and Taiwan successfully and peacefully implemented the "borrowed" institutions that are represented by the WGI. However, the characteristics of political order in Ancient China—a strong state, rule of law, and a weak civil society—are still visible in some Asian countries and economies.

5. Academic and Policy Prospects

The analysis results of above sections clearly indicate that the economic institutional and political institutions are closed integrated and both general and unique characteristics of institutions are existing because the opportunity of open learning and the influence of the culture heritage. This paper purpose a framework, as Fig5-1, for the future institutional research.
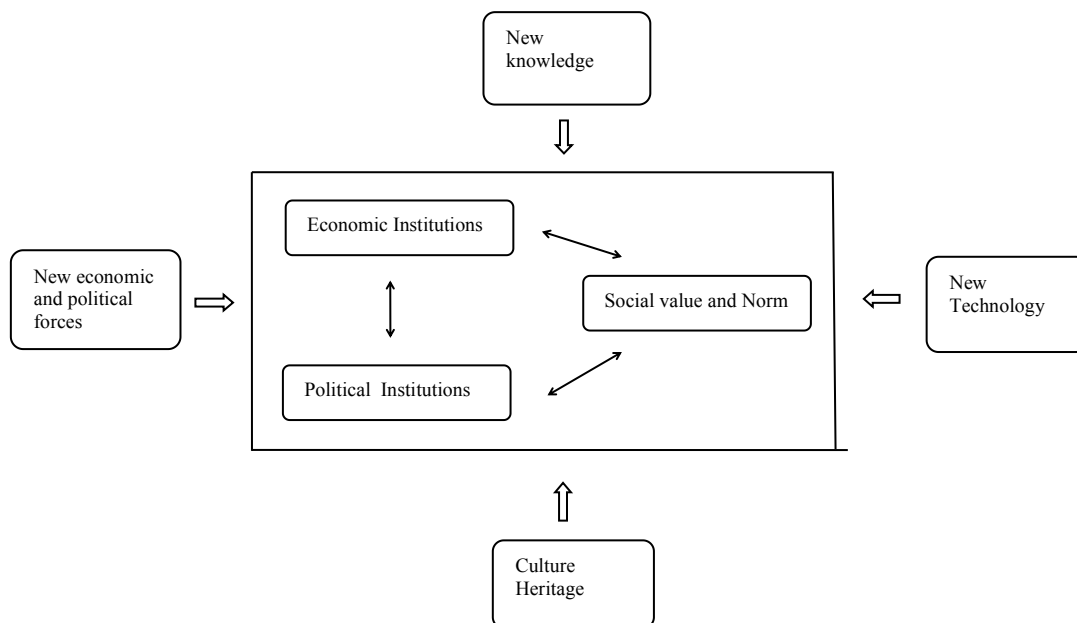

Fig. 5 Institutional Framework

The three part of "Current Institutions Set" are interconnected and together to form a kind of "institutional equilibrium" which should balances the power of all economic and political counterparts and should be well fitted with the current social norm and value. The future research should provide the guide on what are the optimal combination of the economic institutions, political institutions, and culture norm for the total social development, further more, what is the functioning mechanism of integration of these three parts.

This "institutional equilibrium" should has a dynamic nature and it is constantly influenced by the external forces. There are four major external change forces:Culture heritage, New Technology, New Knowledge, and New Economic and Political forces.

Culture heritage should be endogenous for a society, however, there are the cases in history the institutions were changed by re-learning the culture heritage, such as Renaissance and Enlightenment period of time. The "Reform and Opening" of China since 1980's is not only an opening to the outside of the world, is also the opening to China's own culture heritage, and this re-learning process largely influence the current institutions choices and the current social norm.

Institutions are about the human cooperation and the change of technology greatly changed the way of human cooperation. A good example is the internet technology changed face to face cooperation to online cooperation. Such technology change must combined with the institutions change. The current institutions determines how much and how fast of the change of technology and the technology change will result the creation of new institutions.

New knowledge represents the opportunity of learning from others, the learning could be the mean of directly adopting other's institutions, such as the Asia and CEE cases mentioned in the last section, or the leaning could bring the change of value and norm so that lead to the demand for the new institutions. With the more broad range of information resources, such learning become fast ever in the history and the social norm and value are also changed much fast when it was assumed before.

The new economic or political power could be formed under the condition of current institutional set or emerged with other external accidental factors. They represent the new political an economic counterparts and their demand for the political and economic power will break the current "institutional equilibrium".

The policy prospect of this study includes the concept that modernization is the progress of all spheres of a society, including the development of scientific knowledge and human art. Partial progress or partial reform cannot be sustainable. Considering the differing historical heritage, the optimal institutional set could be a specified package rather a general one. The most effective help to those who need it is the supply of knowledge and education, as knowledge and education are the foundation of the right belief set, and the right belief set is the foundation for the right institutional set.

6. Conclusions

With its remarkable achievements over the last several decades, institutional research is ready to move to a new stage. This new stage should be marked by the integration of economics, politics and history into a single institutional frame and the movement from a general to an individualized approach. The theoretical foundation for such a move is not new. Political economy theories already recognize the interconnections between political and economic institutions. Path dependence theory indicates that institutional characteristics should be individual rather than general.

Data analysis demonstrates that both general and specific characteristics of economic and political institutions exist for countries at different income levels. Institutional change could be a Hayek type "spontaneous" change, such as Europe's transformation process; it could also be implemented by a ruling elite with existing knowledge, similar to the case of developed Asian countries/economies; or by new political forces, such as the case of CEE and CIS. The harmonization of these "borrowed" institutions with local values and norms is the critical issue for the success of institutional transfer.

The successful examples of transformation with "borrowed institutions" are CEE and developed Asia. These "borrowed institutions" are the fruit of European cultural tradition. For CEE, the institutional transfer was also a process of culturally "returning home". The transformation experience of developed Asian countries/economics shows the similarity in the

core values of Eastern and Western classical philosophies: human dignity, equality, social justice. Therefore, Asian countries/economics with a strong Confucian tradition are still able to successfully implement the institutional packages that were created based on a belief in the rule of law and social justice.

The purposed institutional framework provide the suggestions for the future institutional research. The integrated approach should be adopted and both general and specific characteristics should be studied. Considering the influence of culture heritage the optimal institutional set could be an individualized one rather a general one; considering the growth speed of open learning the differences between the individualized optional package could be converged in long run.

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Appendix

Table -1 Full Development Countries

Country Name	Code	GDP Rank	WGI Rank	HDI Rank	Innovation Rank	Competition Rank	Growth Rate	GR STD
Luxembourg	LUX	1	8	19	9	19	1.95	3.71
Norway	NOR	2	4	1	16	32	1.26	1.72
Switzerland	CHE	6	6	3	1	4	1.13	1.70
Australia	AUS	7	12	2	27	7	1.89	1.14
Sweden	SWE	8	3	14	6	36	1.89	2.70
Denmark	DNK	9	5	4	8	18	0.83	2.16
Singapore	SGP	10	11	11	18	2	3.12	4.76
United States	USA	12	21	8	2	14	1.49	1.75
Canada	CAN	13	9	9	26	6	1.54	1.79
Ireland	IRL	14	19	6	17	5	3.41	4.36
Netherlands	NLD	15	7	5	11	16	1.43	2.24
Austria	AUT	16	10	23	19	35	1.44	1.84
Finland	FIN	17	1	24	5	20	1.89	3.50
Iceland	ISL	19	13	16	46	68	2.16	3.15
Belgium	BEL	20	20	21	14	40	1.24	1.70
Germany	DEU	21	15	6	4	23	1.36	2.33
France	FRA	25	24	22	21	56	1.01	1.59
New Zealand	NZL	26	2	10	15	3	1.52	1.68
United Kingdom	GBR	27	16	14	10	8	1.56	1.95
Japan	JPN	29	23	20	7	29	0.72	2.18
Hong Kong SAR, China	HKG	30	17	12	32	1	2.65	3.70

Table -2 CEE Countries

		GDP Rank	WGI Rank	HDI Rank	Innovation Rank	Competition Rank	Growth rate	GR STD
ESTONIA	EST	44	28	30	31	22	5.01	3.5
CZECH REPUBLIC	CZE	43	33	28	28	30	2.22	3.51
SLOVENIA	SVN	35	34	25	75	92	2.33	3.37
POLAND	POL	55	37	36	67	46	4.16	3.41
LITHUANIA	LTU	49	38	37	38	58	5.81	0.96
SLOVAK REPUBLIC	SVK	45	47	35	89	43	4.01	3.68
LATVIA	LVA	51	51	46	81	45	5.68	0.43
CROATIA	HRV	58	57	47	124	51	2.71	7.62
HUNGARY	HUN	57	46	44	127	46	2.34	1.38

Table -3 Fast Growth Countries

| GR RANK	Country Name	Code	Growth Rate	GR STD	WGI Rank	HDI Rank	Innovation Rank	Competition Rank
1	Azerbaijan	AZE	9.21	8.96	137	78	43	
2	Myanmar	MMR	8.83	3.19	164	148	137	117
3	China	CHN	8.78	1.90	123	90	40	98
4	Georgia	GEO	7.37	4.14	78	76	110	
5	Armenia	ARM	7.10	6.82	88	85		
6	Belarus	BLR	6.53	3.81	145	50		
7	Macao	MAC	6.31	9.10	56			
8	Turkmenistan	TKM	6.49	6.45	163	109		
9	Iraq	IRQ	5.48	17.18	165	121		
10	Kazakhstan	KAZ	5.76	3.99	135		69	
11	Lithuania	LTU	5.71	5.81	38	37	38	58
12	Cambodia	KHM	5.67	2.97	139	143	101	
13	Latvia	LVA	5.56	6.28	51	46	81	45
14	Albania	ALB	5.27	4.98	95	85	115	44
15	Mongolia	MNG	5.42	4.26	82	90	104	
16	Lao PDR	LAO	5.28	1.20	143	141	71	
17	Vietnam	VNM	5.23	0.89	116	130	95	
18	India	IND	5.27	2.25	107	116	48	79
19	Trinidad and Tobago	TTO	4.84	4.82	69	64		62
20	Estonia	EST	4.92	6.49	28	30	31	22
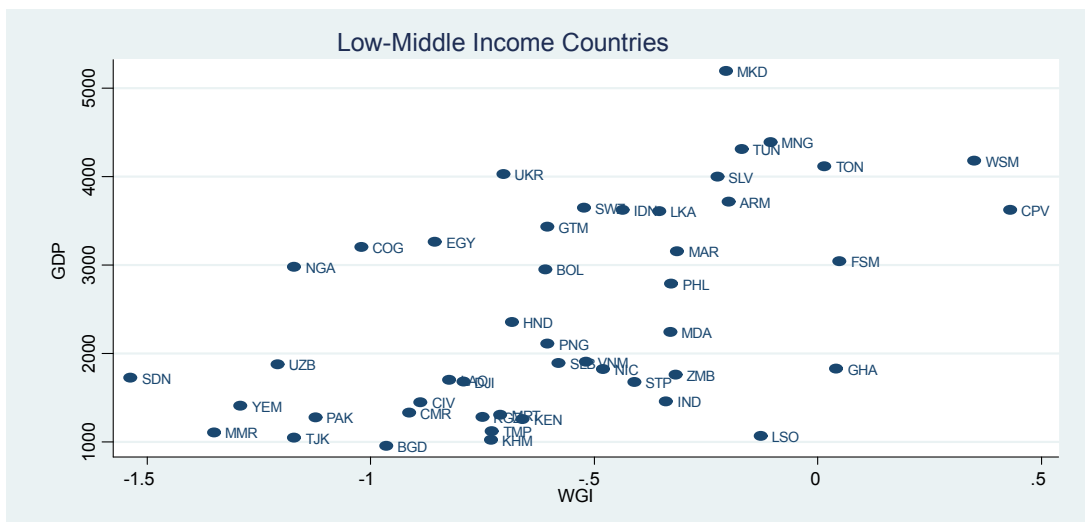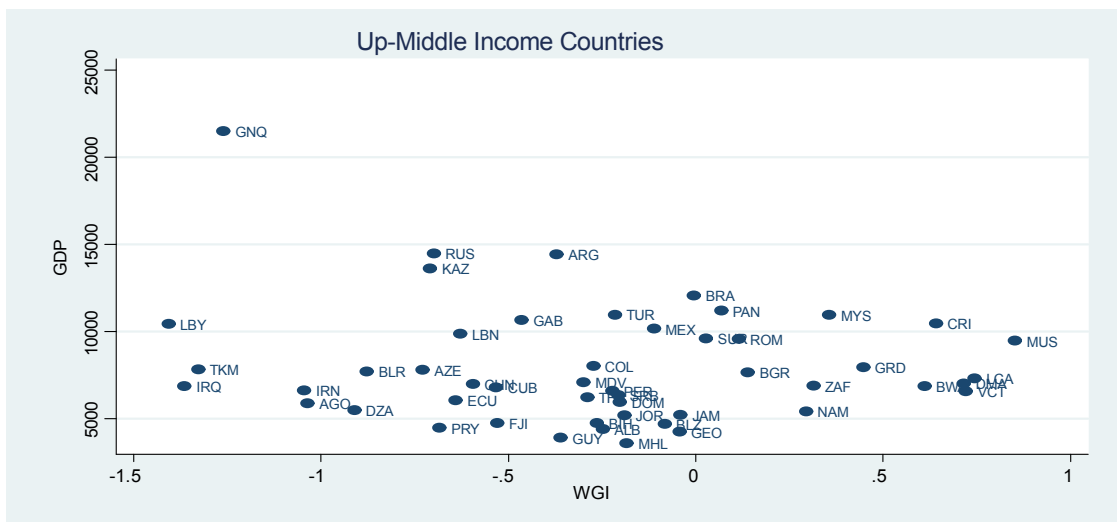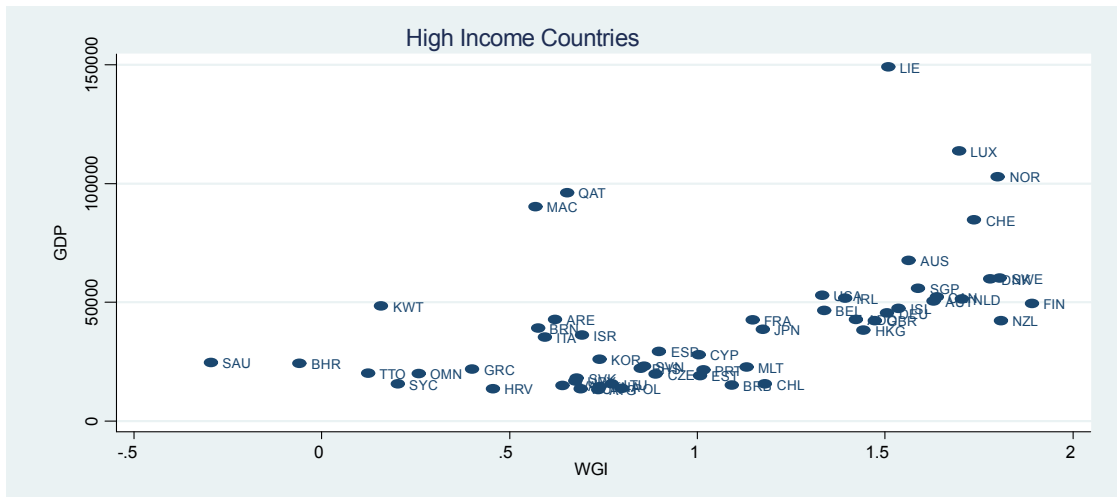
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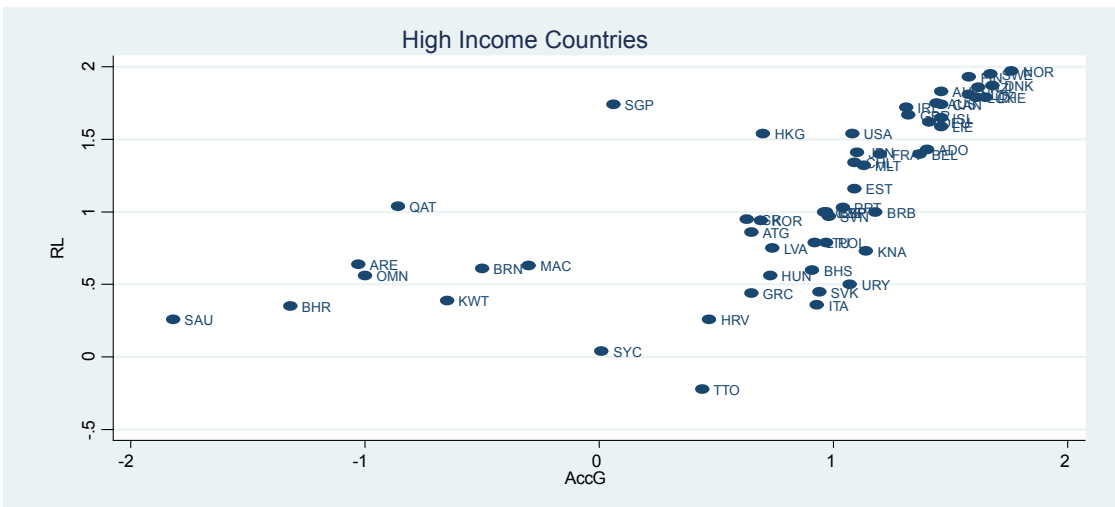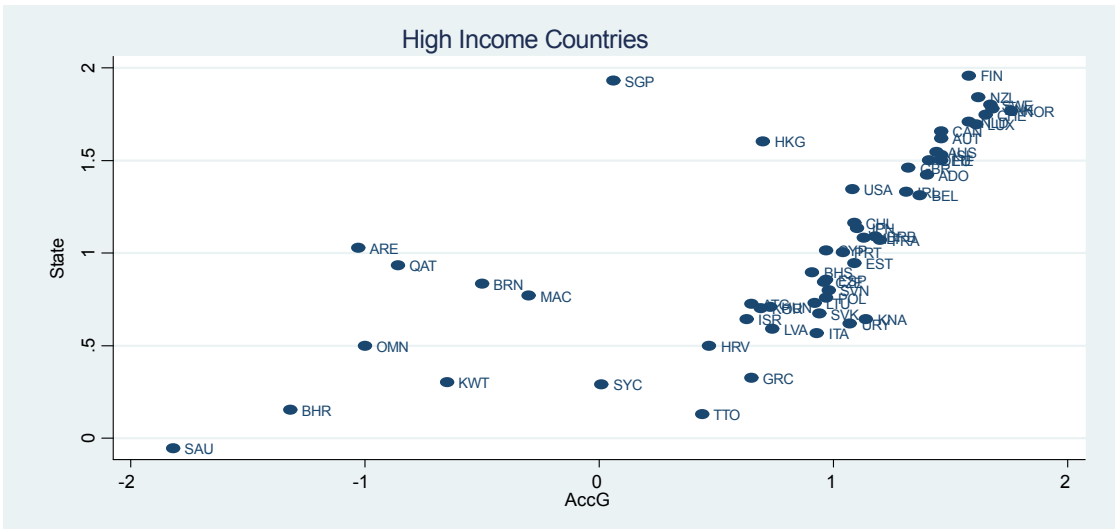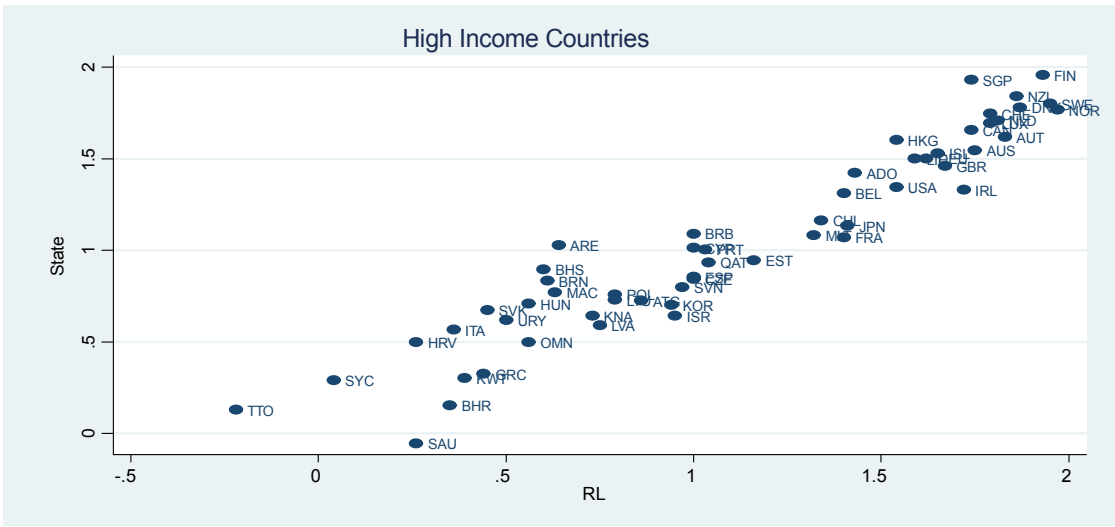
Fig-2
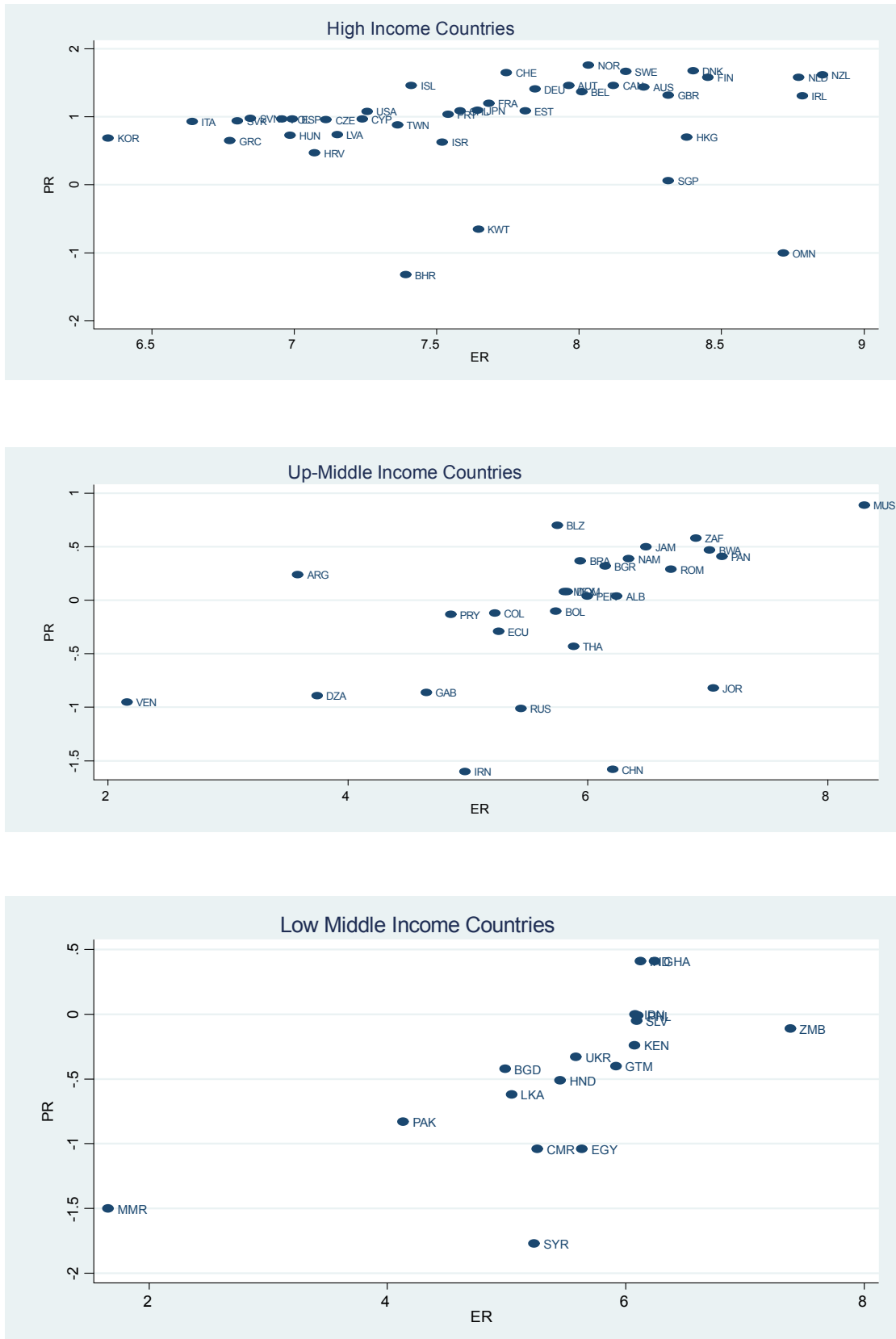
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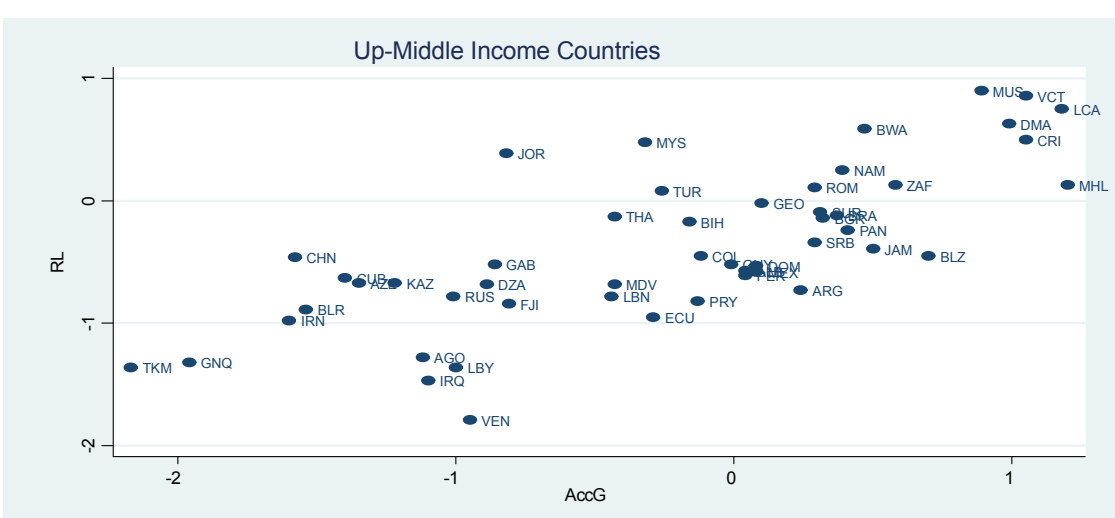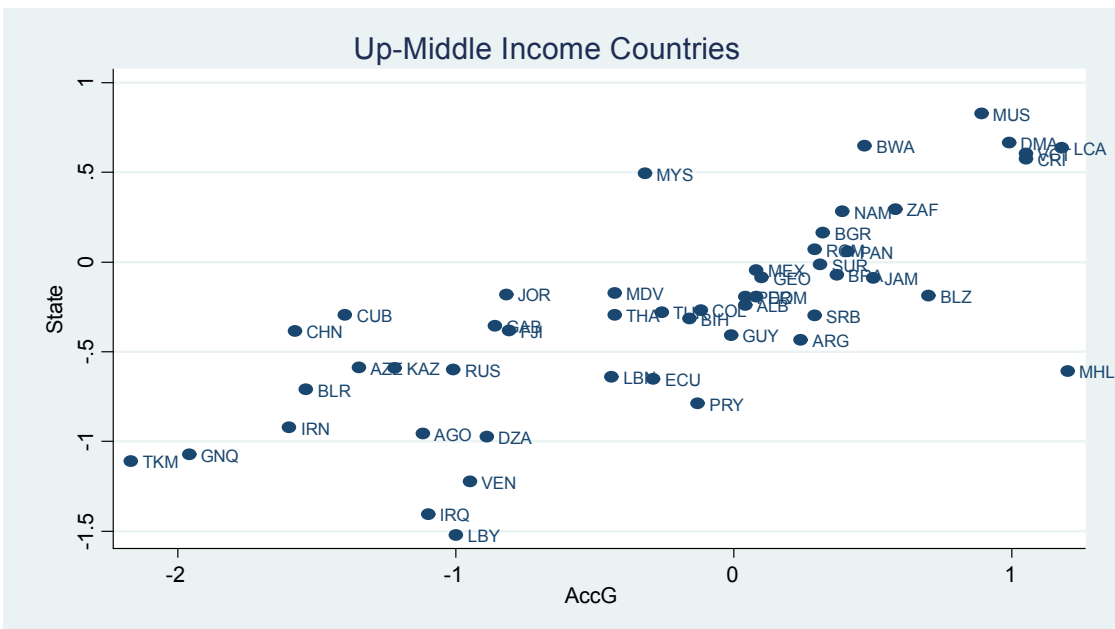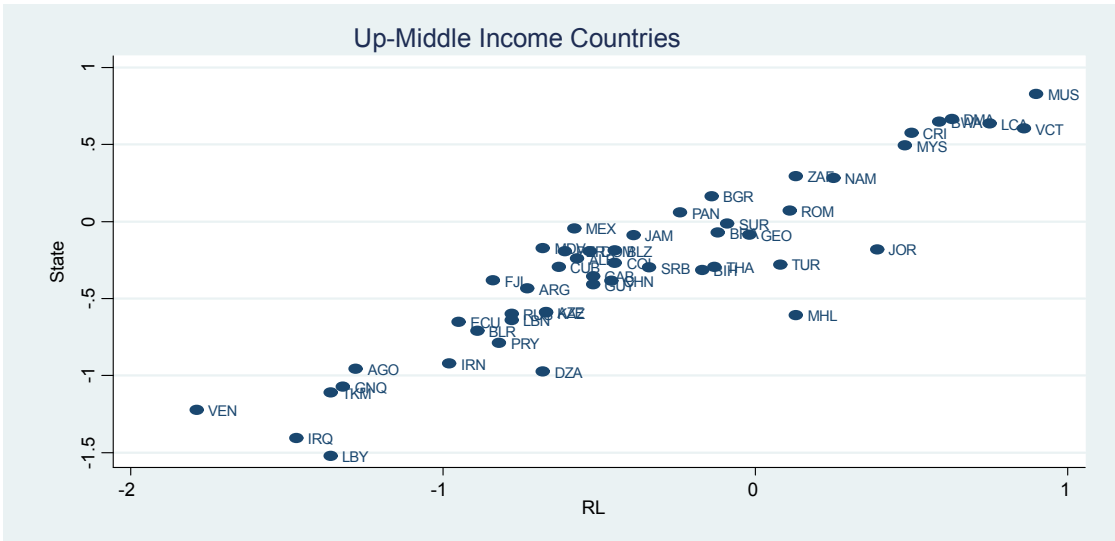
Fig-3-1 Political Order of High Income Countries
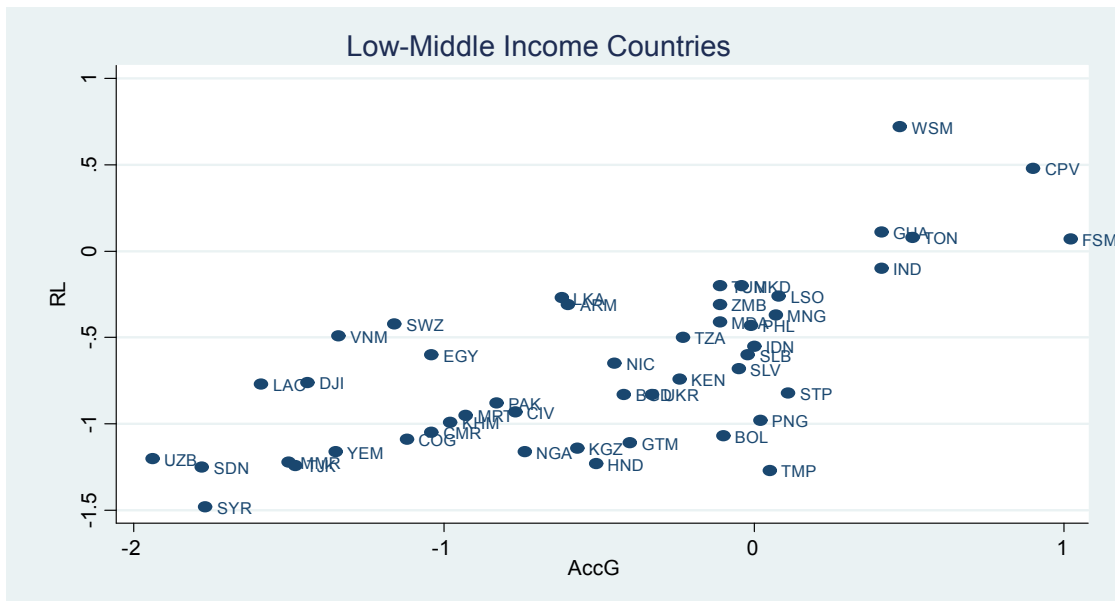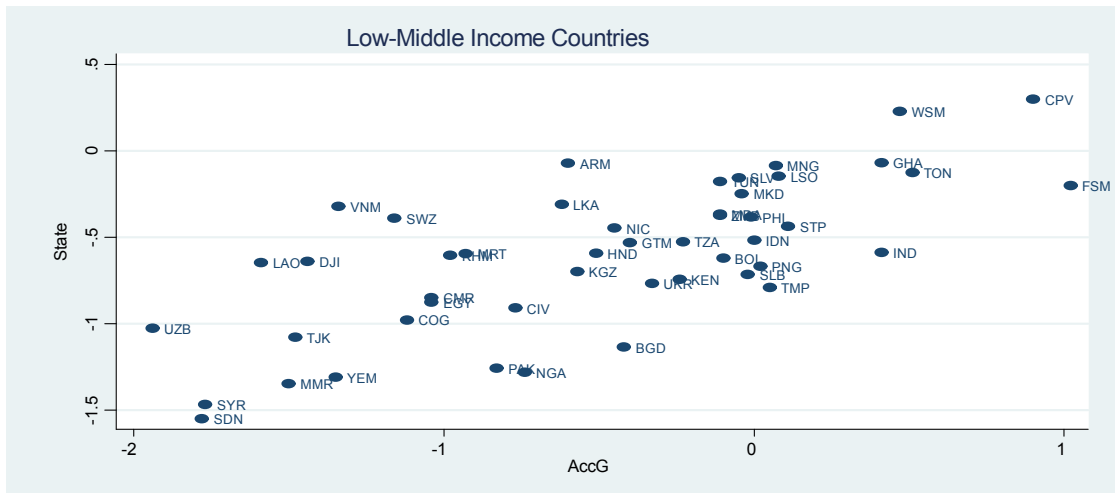
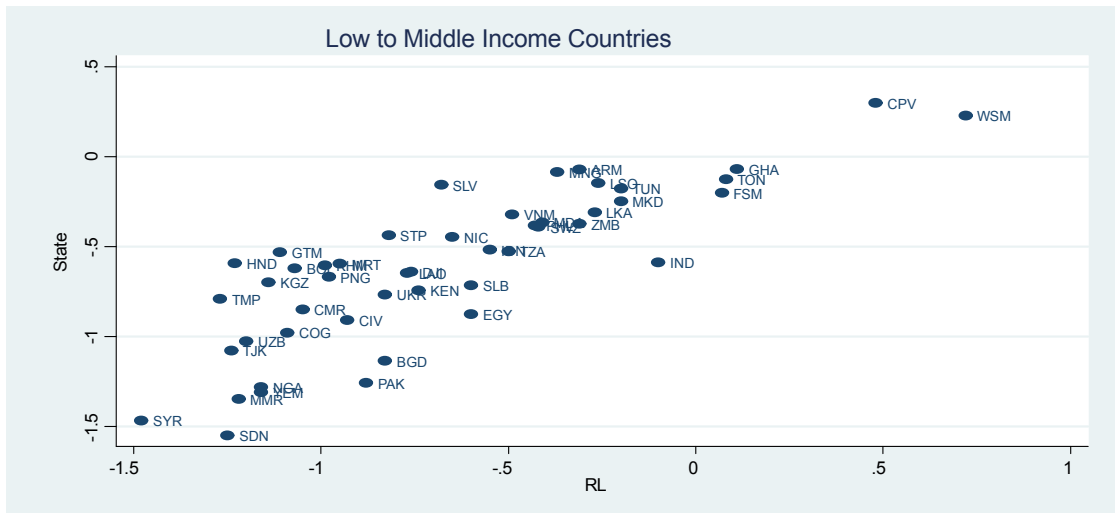Fig - 3-2 Political Order of Up-Middle Income Countries

Fig - 3-3 Political Order of Low-Middle Income Countries