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From Governance to Growth: Exploring Political Systems' Impact on Economic Competitiveness

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Abstract: Political systems profoundly influence the economic growth and competitiveness of nations. This review article synthesizes recent scholarly research to explore how political stability, institutional quality, and public policy formulation interact to shape economic outcomes. Political stability reduces uncertainty, bolsters investor confidence, and attracts foreign direct investment, thereby enhancing economic resilience and global competitiveness. In contrast, political instability leads to reduced innovation, weakened institutional efficiency, and capital flight, undermining long-term growth prospects. Institutional quality emerges as a cornerstone for sustainable development, fostering transparency, accountability, and governance efficiency. Countries with robust institutions benefit from greater sectoral diversification, higher levels of innovation, and a conducive environment for evidence-based policymaking. The role of public policy formulation is equally critical, as collaborative, and transparent policy making fosters innovation and enables the coordination of public and private initiatives, essential for navigating complex global economic challenges. The article also highlights the limitations of authoritarian systems, which, while capable of short-term growth, often falter due to corruption and inefficiencies. In contrast, inclusive and participatory governance structures contribute to higher levels of trust, predictability, and policy alignment with market dynamics. By connecting these dimensions, this article provides a cohesive framework that underscores the interplay between governance structures and economic growth, offering actionable insights for policymakers and scholars. The findings emphasize the importance of stable political environments, resilient institutions, and transparent policy frameworks in ensuring sustainable economic advancement. Future research directions include exploring the implications of digital governance and geopolitical shifts on political systems and their economic ramifications.

Keywords: Political stability; Institutional quality; Public policy; Economic growth; Competitiveness; Governance; Transparency

1. Introduction

Political systems form the foundational framework for economic growth and competitiveness, shaping the trajectory of development through stability, resilience, and inclusiveness. While factors like infrastructure, technology, and human capital are critical, it is the political system that governs their effective utilization. This article examines the dynamic interplay between political systems and economic outcomes, focusing on three interconnected dimensions: political stability, institutional quality, and public policy formulation.

By synthesizing recent findings, the article seeks to address the fragmented understanding of these aspects, offering a cohesive narrative on their combined influence on economic growth and global competitiveness. The **Figure 1** provides an essential visual summary of the key themes discussed in the article, bridging the theoretical framework with practical implications.

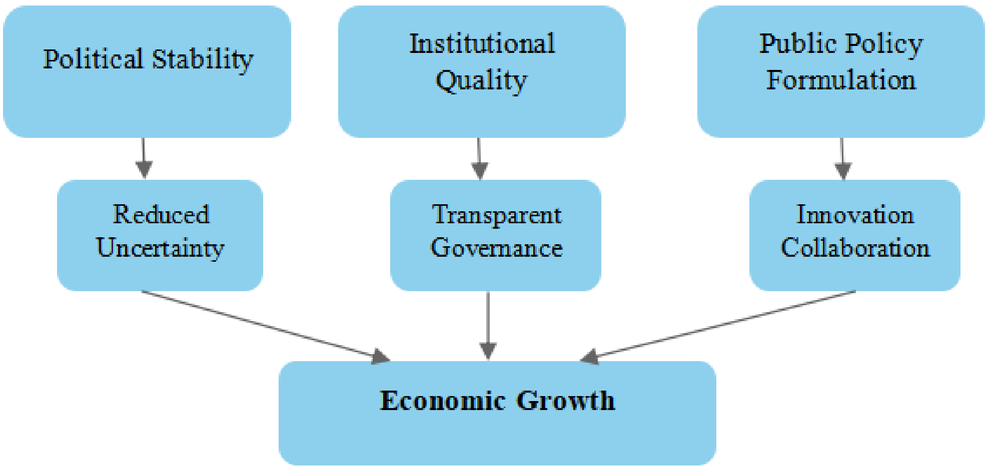

Figure 1. The Interplay Between Political Systems and Economic Growth
Source: Author owns work

The figure illustrates the dynamic interplay between political systems and economic growth. It highlights three central pillars—political stability, institutional quality, and public policy formulation—that underpin economic competitiveness. Political stability mitigates uncertainty, fostering investor confidence and foreign direct investment. Institutional quality promotes transparent governance and policy continuity, ensuring sustainable development. Lastly, evidence-based public policy formulation enables innovation and collaboration, crucial for driving global competitiveness. Together, these interconnected dimensions form a cohesive framework that links governance and growth, offering insights for policymakers and scholars alike.

2. Political Stability and Economic Competitiveness

Political stability is widely regarded as being of fundamental importance for economic growth, given its ability to mitigate uncertainty and engender an environment conducive to investment and innovation[1,2]. The promotion of political stability is of crucial importance for the establishment of a favourable economic environment[3]. The presence of stable political systems has been demonstrated to reduce uncertainty, thereby engendering greater investor confidence and attracting long-term investment[4]. The presence of stable political systems has been shown to reduce uncertainty, thereby engendering greater investor confidence and attracting long-term investment[5]. As Hamdaoui et al.[6] demonstrate, stable political systems attract significant foreign direct investment (FDI), thereby strengthening global competitiveness. Conversely, political instability and internal conflicts have a detrimental impact on the business environment, deterring investment and jeopardising long-term growth[2,7-12]. Recent studies indicate that economies with stable political systems can attract a greater volume of FDI and expand their global competitiveness[13-17].

It is equally important to consider the predictability of power transitions and the continuity of public policies[18]. Stable democracies have been observed to demonstrate higher economic growth compared to authoritarian or unstable regimes[5,19-24]. This is mainly due to the greater legal certainty and protection of property rights that are characteristic of stable democracies[25-26]. Furthermore, political stability exerts a direct influence on a country's competitiveness, impacting factors such as institutional efficiency and the government's capacity to maintain social order[16,27-31]. In addition, the predictability of power transitions and the continuity of public policies have been identified as significant factors[32]. A growing body of research has demonstrated that stable democracies exhibit higher levels of economic growth in comparison to authoritarian or unstable regimes[5,33-36]. This phenomenon is primarily attributed to the enhanced legal certainty and protection of property rights that are characteristic of stable democracies[37-39]. Furthermore, political stability exerts a direct influence on a country's competitiveness, affecting factors such as institutional efficiency and the government's ability to maintain social order[16,25,40]. In consequence of their unstable and inefficient political systems, countries are prone to experience greater capital flight and retracted investment in research and development, which ultimately jeopardises their competitive position in the global market[16,41-43].

3. Institutional Quality and Governance

Institutional quality underpins sustainable economic development by fostering transparency, protecting property rights, and enabling long-term policy planning[44-46]. The existence of robust political institutions is conducive to the establishment of transparency, the safeguarding of property rights, and the creation of an environment conducive to long-term policy planning[47-49]. Kuo and Lee[50] identify institutional resilience as a key factor in determining growth, emphasising the role of pluralism and power distribution in promoting transparent governance.

Political systems that encourage the existence of a plurality of opinions and the division of power tend to result in the formation of more resilient and transparent institutions[51-55]. This, in turn, creates a more favourable environment in which policies are formulated based on evidence and are aimed at long-term growth[56-58]. While authoritarian systems can, on occasion, achieve short-term growth, they frequently encounter difficulties in ensuring sustainable development, a phenomenon attributable to corruption and inefficiency[48,59-60]. The quality of institutions is also closely linked to innovation, investment, and sectoral diversification, all of which contribute to a nation's competitiveness[4, 61-67]. Mahran[68] further suggests that governance quality, as reflected in robust institutions, correlates positively with higher economic growth and global competitiveness.

Furthermore, governance can be defined as a measure of political, economic and social institutions[69-74]. There is a positive correlation between high levels of governance and greater competitiveness and economic growth[64,75-78]. The presence of robust institutions in a government is conducive to attracting greater levels of investment, fostering innovation and stimulating growth in sectors that offer high value-added products and services[79-80].

4. Public Policy Formulation and Economic Growth

The influence of political systems on public policy formulation has far-reaching implications for economic growth. Policies founded upon empirical evidence and collaborative efforts between the public and private sectors have been demonstrated to be more efficacious in fostering competitiveness[16,81-84].

As Tomizawa et al.[85] contend, economic growth is not solely a consequence of market forces; rather, it is the result of meticulously coordinated public-private initiatives. Collaboration and transparency are identified as facilitating factors in the creation of policies that encourage technological development and global competitiveness[16,86-88]. Conversely, inflexible political structures that concentrate authority and impede public discourse can give rise to ineffectual or misguided public policies that fail to consider the evidence and the requirements of the market, thereby impeding economic growth[89-91].

Inflexible political structures, however, often fail to incorporate diverse perspectives, leading to poorly informed policies that hinder growth[92-96]. Transparent and inclusive policymaking fosters innovation and global competitiveness, as Cammack[16] highlights.

This section underscores the critical need for evidence-based policies tailored to market dynamics to ensure sustained economic advancement.

5. Future research directions

As has been noted in this review article, the relationship between governance and economic growth is a dynamic one, with numerous emerging areas that require further investigation. Future research should aim to fill gaps in understanding, both existing and likely to emerge over time, in how economies can adapt to the changing global environment.

The advent of digital technologies has rendered unprecedented opportunities to enhance the efficiency, transparency and inclusivity of governance. Future research endeavours could explore the potential of e-governance initiatives (e.g. digital tax collection systems) to augment economic competitiveness and transparency. Nevertheless, it is imperative to deliberate on the risks associated with digital governance, including cybersecurity threats and digital exclusion, particularly in developing countries.

As previously mentioned, global political dynamics are undergoing significant change, with the emergence of trade wars, geopolitical realignments, and regional conflicts reshaping economic relations. Research should thus concentrate on how countries can adapt their governance structures to remain competitive in a volatile geopolitical environment. A promising avenue for future research would be the undertaking of case studies examining how smaller economies cope with these changes, thereby providing valuable insights into resilience strategies.

Another fundamental and perennial issue is that of the increasingly important environmental challenges to governance and economic growth, the study of which is essential, especially for developing countries, to understand how institutions can balance the demands of economic development with the imperatives of sustainability.

Informal institutions, such as cultural norms and social capital, also play a significant role in shaping economic outcomes. There should be a focus on analysing how these informal systems interact with formal governance structures, particularly in promoting trust and reducing transaction costs.

Finally, the global pandemic caused by the SARS-CoV-2 virus has underlined the importance of governance that is able to adapt to respond to different crises. It is therefore essential to be able to identify more effective governance models in conditions of uncertainty, and this area of research is key to understanding how to build resilient systems capable of withstanding future shocks.

6. Conclusion

The conclusion drawn from this analysis indicates that the relationship between political systems and economic growth is complex and multidimensional, based on political stability, institutional quality and the formulation of evidence-based public policies. Stable and transparent political systems form the basis of solid institutions, promoting efficient governance and economic resilience. Policymakers should therefore prioritise strengthening governance, collaboration and political stability to maintain competitiveness and innovation. Future research should explore emerging themes, such as the influence of digital governance and the implications of geopolitical changes on global economic frameworks. However, it is acknowledged that there are many areas to explore and that the study can delve into new, ever-changing areas that will impact on the economic growth so desired for countries, regardless of their current situation.

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