

Bertelsmann Stiftung (ed.)

Bertelsmann Transformation Index 2008

Political Management in International Comparison

Bibliographic information published by Die Deutsche Nationalbibliothek

Die Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic information is available online at <http://dnb.d-nb.de>.

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Managing editor: Olaf Hillenbrand

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Cover design: Nadine Humann

Cover illustration: Getty Images; Kopfstand GbR, Bielefeld

Typesetting and print: Hans Kock Buch- und Offsetdruck GmbH, Bielefeld

ISBN 978-3-89204-968-5

www.bertelsmann-stiftung.org/publications

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Introduction

Gradual processes of democratic and economic change are just as important as momentous events in the history of states and their citizens. Few events in international politics evoke as much euphoria and hopes for the future as the fall of an authoritarian regime or the sudden move to reform.

The metaphors used to describe processes of transformation are often rife with dramatic symbolism. Several historic upheavals of the past offer powerful imagery upon which the collective memory of those monitoring political trends can draw: the literal laceration of the Iron Curtain in Hungary; Nelson Mandela's assumption of office, which signaled a new era for South Africa; Boris Yeltsin riding atop a tank to defend democracy in Moscow; the fall of Saddam's statue in Baghdad; or the streets of Kiev draped in orange in protest of electoral fraud.

As powerful as these symbols are, they may—at best—evoke hopes for a better future, but they cannot guarantee the fulfillment of these hopes. Indeed, political upheaval often creates a fork in the path of a state's history. It presents the opportunity for improvement but also potential failure, as the aforementioned examples illustrate:

- The fall of communist regimes in Hungary and in other Central and East European states has led to sustainable success in transformation. Even with the strong influence and support of the European Union, the systemic change that has taken place in these countries took nearly two decades and had several hurdles to overcome despite the clear vision guiding them. Developments in neighboring Balkan states contrasted with these successes and tragically showed how processes of change can unleash forces and events that can thwart targeted goals.
- The roots of this development are found within the liberalization of the Soviet system under Mikhail Gorbachev, who failed to achieve his ambitious goals. His successor, Boris Yeltsin, since deceased, succeeded in preventing the restoration of communism. The case of Russia illustrates particularly well just how large the obstacles are in the long path of democratization in a country that has been shaped by authoritarianism. Indeed, much has changed in Russia in the two decades since it embarked on its transformation course. However, to date, this mammoth state has failed to move beyond the status of a highly defective democracy. It has, in fact, regressed in recent years.
- A similar development can be seen in the case of Ukraine, where the failure to deliver on promises of a democratic future in the wake of independence was fol-

lowed by the Orange Revolution in 2004. A mere two years later, the euphoria for reform was confronted with the harsh reality of politics as the leaders of reform became caught up in the day-to-day operations of government and the threads of their alliance fell apart. The fact that Victor Yanukovich, who had been accused of electoral fraud, eventually came to lead the government until early elections held in fall 2007 points to the deep divide marking Ukraine.

- Apartheid has been defeated in South Africa, and the country is now one of many in Africa successfully targeting the goals of democracy and a market economy. However, bad news continues to dominate headlines on events in Africa, and the fight against poverty has yet to yield any spectacular breakthrough.
- The civic engagement and grassroots organization that characterize so many of Africa's reform movements are absent in Iraq and Afghanistan. In these two countries, the world is once again witness to failed attempts to impose democracy from above and from abroad. Though elections held in both countries have met international standards, they have failed to lead to the establishment of sustainable democratic systems. Despite all efforts, Afghanistan and Iraq remain two catastrophic examples of failed international politics.

These and other processes of development and transformation are examined and assessed by the Bertelsmann Transformation Index 2008. At first glance, it appears that the third wave of transformation has come to a standstill as leaders have become entangled in the rancor of everyday politics.

However, to reduce events to a conclusion of this sort would underestimate the power of process in transformation. Clearly, steady, rapid and linear transformation processes like those observed in the EU accession countries are generally an exception. In the vast majority of transformation processes, periods of upheaval or successful transitions are often followed by a period of stagnation, or in more positive terms, the consolidation of what has been achieved. Regression is not to be excluded as a possibility, as countries in almost all regions have taken steps backward. Stagnation during difficult periods can mean success, or it can point to the failure to seize opportunities that have presented themselves. The widespread images of spectacular successes that have shaped the conception of transformation do not, in most cases, reflect the reality of change.

In fact, there are several "quiet" examples of success, such as the gradual consolidation of democracy in Chile, the establishment of democracy in Georgia, India's economic ascent and the relative durability of democracy in Mauritius, Botswana, Ghana, Senegal and Mali, all of which demonstrate not only how long the path to democracy and market economy can be, but also that there are no guarantees of success. Indeed, the five countries that successfully transitioned to democracy in the last two years, namely Burundi, Haiti, Kyrgyzstan, Liberia and Mauritania, face a considerably long road ahead.

Those exploring development toward the dual goals of a constitutional representative democracy and a market economy flanked by sociopolitical safeguards need a

precise measuring tool that examines these developments in all their detail and within their general context. The third edition of the Bertelsmann Transformation Index provides exactly such a tool.

The BTI is divided into two indices: the Status Index and the Management Index. In its Status Index, the BTI examines the current state of democracy and market economy in 125 developing and transformation countries according to standardized criteria. The quality of political leadership and governance in shaping change is the focus of the Management Index. This year's results once again corroborate the BTI's underlying premise: that progress in democratic and economic development hinges primarily on the actions of political leaders, adequate crisis management and the ability to think and act strategically.

Both the Bertelsmann Stiftung and the Center for Applied Policy Research have been encouraged by the positive feedback sparked by the Bertelsmann Transformation Index. Though welcomed, the first BTI in 2003 also met with a healthy dose of skepticism. The BTI 2006, however, enjoyed considerable attention as increasingly more people and institutions put its findings to use. A few examples:

- The German government has used the BTI in developing its new set of governance criteria. Institutions active in the work of development cooperation are also using the BTI.
- The BTI has become a key asset for the United Kingdom's Department for International Development, which uses the BTI in producing its Governance Assessments for countries receiving support.
- The BTI is integrated as one of the key indices within the World Bank's Governance Indicators, and Transparency International's Corruption Perceptions Index uses the two BTI criteria assessing accountability and corruption.
- The BTI has become not only a standard reference tool quoted in scholarly articles and other publications on development politics, but also a useful instrument in conducting policy analysis. Together with Freedom House, the Democracy Coalition Project and the Ghana Center for Democratic Development, the BTI has worked to support the Community of Democracies.

The increasing popularity of the BTI is a powerful motivator for all of us who work on the project. Thanks also to the steady attention received by the BTI in the media, it is reaching an increasingly broad audience. Unique in its absolute transparency and accessibility, the BTI provides easy access to the entire corpus of country reports and data collected, on the Internet at www.bertelsmann-transformation-index.de. Published regularly every two years with updated data and analyses, the BTI serves as a compass for agents and supporters of reform in navigating transformation.

Methods and country selection

The BTI represents another chapter in the cooperation between the project partners, which began in the 1990s, along with the exploration of development and transformation countries. Their work together has included compiling annual progress reports on EU accession countries in the 1990s, developing the assessment criteria for political transformation and conducting global research for the Carl Bertelsmann Prize 2001 to identify particularly effective strategic approaches in managing transformation.

The Bertelsmann Transformation Index 2008 measures the state of democratic and economic transformation at the start of 2007 in 125 countries and evaluates their transformation management according to a universal standard.¹ The acts, decisions and management of leaders steering change in the last two years (2005–2007) are the focal point of the Index.

The BTI 2008 thus builds upon its previous editions, continuing with its up-to-date, systematic and detailed analysis of the key parameters of success and failure in transformation. Now in its third edition, the BTI lends itself to a time series analysis in which the stages of change in the 21st century are reliably documented. A supplementary study on issues of gender equity was conducted in parallel with the BTI 2008, the results of which will be published at a later date.

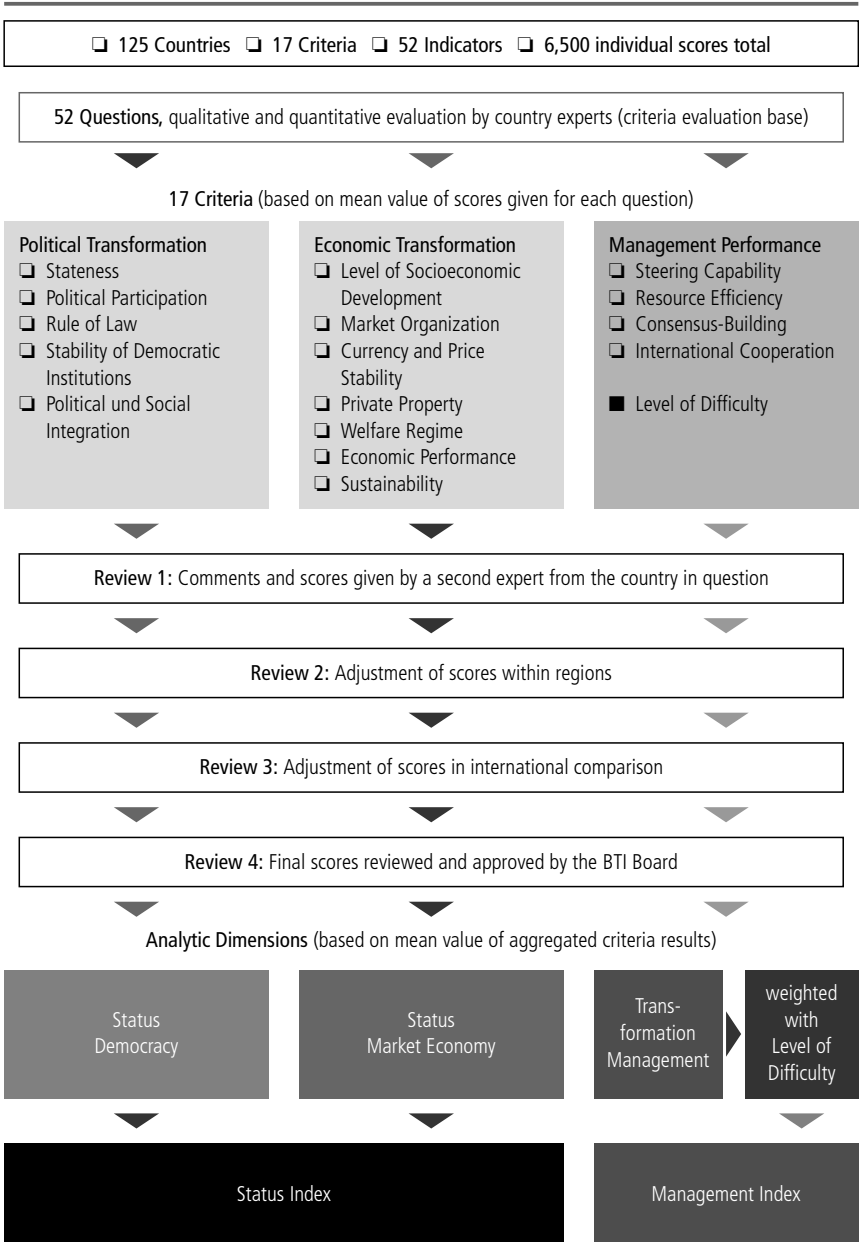
BTI findings are the result of an extensive process that begins with more than 200 country experts who assess the state of democracy, economic change and management in each country according to 17 criteria comprising 52 questions. The resulting reports provide a high-resolution image of the state of affairs in each country studied and include a solid review of the challenges faced, strategic responses and successes in transformation during the period under review.

The high degree of standardization in compiling the reports allows users to conduct targeted comparisons not only between states within a given region, but internationally as well. The results are also numerically coded and consolidated to create a compelling ranking that is unique in itself.

The validity of BTI ranking results can be attributed not only to the careful selection of authors, but also to a diligent and iterative review process:

- In a first step, each country report is submitted to a second expert for scrutiny. In most cases, an expert outside the country is paired with a local expert to curb potential distortion.
- This process of calibration, correction and supplementation is moderated by a regional coordinator, who monitors report quality and sufficiency and also the plausibility of scores given within his or her region.
- The scores given within a region are then calibrated in interregional comparison to ensure the comparability of all states included in the BTI.

1 Neither developed OECD states nor those with populations less than two million (excepting a select few) are included in the BTI.



- In a final step, these results are then audited and approved by the BTI Board, a group of experienced development and transformation experts.

In terms of content, the BTI 2008 has been developed further. In addition to changes in two questions that have been reformulated, significant effort was made in revising the codebook that underlies the entire project. This was done in part to improve support for the country experts and also to improve standardization by refining the criteria and their questions.² Perhaps the most obvious change made for the BTI 2008 is the inclusion of six more states. In principle, states included in the BTI meet the following criteria:

- they have not yet reached the status of a fully consolidated market-based democracy
- their status as a sovereign state is internationally recognized
- they have a minimum population of two million (in contrast to the three million threshold used in the BTI 2006)

Because the BTI is particularly interested in foregrounding best practices as well as especially interesting cases of transformation, there are five states included in the BTI that do not meet the population criterion.³ New to the BTI this year are the states of Bhutan, Mauritania, Kuwait, Montenegro, Oman and the Republic of Congo.

Though comparing states in transformation with consolidated industrial states may prove compelling, the BTI has decided against doing so because of the need to maintain consistency and precise, targeted data collection. Nevertheless, the BTI has served as a model for the Bertelsmann Reform Index (BRI), a project examining the reform and governance capacity of OECD states that has also been developed by the Bertelsmann Stiftung in partnership with the Center for Applied Policy Research at the University of Munich and will be published shortly after the BTI.

Contents

In addition to various contributions, this publication includes a chart showing all scores in the form of a ranking. A CD-ROM, also included, presents all of the country reports, individual scores and documentation of materials used in the study. The sheer volume of documents produced by the BTI requires their publication in electronic form. The country reports alone, averaging 20 pages in length, total some

- 2 In contrast to the BTI 2006, transformation management in the BTI 2008 is assessed according to 17 instead of 18 questions. The question regarding social capital (formerly 16.4) has been integrated with the question assessing associational activities (5.4). For further information on these changes, please see the chapter “Criteria and Methodology” in this edition.
- 3 This includes 120 states that fulfill all criteria, including Taiwan, even though its legal status as a sovereign state is acknowledged by only some states. Bahrain, Botswana, Estonia, Mauritius and Montenegro are included as well for a total of 125 countries in the BTI 2008.

2,500 pages. The country reports record development and transformation in the BTI's 125 countries, describe their general context and permit the classification of reform strategies. However, they also provide qualitative substantiation for the 7,000 scores upon which the ranking is based.

This corpus of data is essential to comparing processes of transformation or exploring specific issues thoroughly. The data and assessments collected provide several opportunities to engage in in-depth analysis, which can range from comparing two individual countries with each other, to comparing regions, to comparing factors of success in development and transformation, to the pursuit of thematic interests such as the rule of law.

This edition, together with the materials provided on the enclosed CD-ROM, aims to render the data usable as easily as possible and in different ways. The abridged score charts provide a quick and comprehensive view and are useful in interpreting the findings.

The Bertelsmann Transformation Atlas (BTA), an interactive flash application, was created to link the clear but necessarily dense information provided in the charts with the underlying expanse of assessments. The BTA uses graphic visualization techniques to supplement the scores given with information on the state of transformation throughout the globe. In doing so, it invites users to explore or compare issues of individual interest with the help of interactive tools (www.bertelsmann-transformation-index.de).

Ranking results are examined from various perspectives in the contributions to this year's edition. Chapter two provides quick access to key findings. It also relates the BTI's general approach to the results of the two rankings. Drawing primarily on the status of democratic and economic transformation as well as transformation management, this chapter interprets the aggregated results. These findings show that in the last two years, resolute and solid transformation management in several countries has succeeded in advancing these states toward the twin goals of democracy and a market economy.

The third chapter, "Global Trends," takes an in-depth look at the BTI findings. Based on the body of expert assessments, this chapter explores the key factors in good governance and the contexts for successful transformation policies and reform management.

The fourth chapter carefully explains the criteria and methods used in the Bertelsmann Transformation Index and positions the Index within the landscape of rankings that deal with similar issues. Methodological and substantive changes for the BTI 2008 are also discussed. This chapter is of particular interest for those readers who wish to use the Index for scholarly purposes and therefore require precise information about the process of data collection.

Chapter five consists of seven subchapters reflecting the seven regions that make up the BTI. Each of these regionally oriented chapters provides background information on the political-cultural and historical context for each region as well as the particularities of the challenges they face. The regional contributions provide an over-

view of transformation in their respective region while assessing trends and developments.

The appendix includes a list of references, a list of frequently used acronyms and the list of authors.

Colleagues and authors

The Bertelsmann Transformation Index is part of a shared project on shaping transformation processes that is conducted by the Bertelsmann Stiftung in close cooperation with the Center for Applied Policy Research at the University of Munich. Both institutions are conceived as think tanks in the service of fostering reform and developing approaches in favor of a sustainable society. Among the joint Stiftung and CAP projects, the BTI stands out in terms of its volume of collected data and the large number of colleagues and authors who have worked together to create the BTI.

Compiling the vast body of data that makes up the Bertelsmann Transformation Index would have been impossible without the help of more than 200 country experts from around the world. Lending their expertise as authors and commentators and working cooperatively, these experts are the heart and soul of the project. The BTI also benefits from the guidance of the development and transformation experts that make up the BTI Board. These men and women have played a significant role in developing the conceptual framework, monitoring the results and in overseeing the project in its entirety.

As a reliable monitoring tool, the Bertelsmann Transformation Index 2008 renders transparent the course of reform toward constitutional democracy and a market economy flanked by sociopolitical safeguards. The landscape of data used to examine development and transformation processes as well as the work of reformers and institutions active in development cooperation can be improved upon by underscoring both successful strategies and failures in transformation.

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Findings Summary

In comparison to the years directly following the end of the Cold War, the period under review for the Bertelsmann Transformation Index 2008 was rather uneventful in terms of development and transformation. At first glance, it appears as though the set of conditions and the course of transformation taken in 125 countries are the same as those observed in 2006. A closer look, however, reveals discernible developments and processes of change that have had a major impact—and not only on the lives of those directly caught up in them:

- in global terms, the continued ascent of the Chinese economy is affecting the consumption of resources and, more recently, development cooperation; Russia's return to the international stage as a world power has been accompanied by the gradual erosion of democratic rights;
- at the regional level, there are increasing concerns not only about stability and security in failed states and regions plagued by civil war or the threat of implosion in Afghanistan and Iraq, but also about the consolidation of European integration;
- at the national level, there are several difficult struggles under way, from ensuring the democratic gains of the color revolutions in Ukraine and Georgia to stabilization and reconstruction in the wake of a civil war (Democratic Republic of Congo) to Turkey seeking closer ties to the European Union and adopting its standards.

These and other examples illustrate a particular strength of the BTI: The precise, detailed study of 125 transformation processes at regular intervals allows for individual case studies as well as the comparison of countries or regions, which makes detecting trends possible. This chapter will provide an overview of the underlying concepts and results of the BTI 2008 study. Clearly, this condensed overview neither can nor should serve to replace further analysis. It is intended, rather, to orient the reader before moving on to the issues examined in depth elsewhere in this volume or the 125 individual country reports.

Categories of analysis

The normative benchmark for the Bertelsmann Transformation Index is the concept of a representative democracy under the rule of law, combined with a sustainable market economy flanked by sociopolitical safeguards. The BTI does not evaluate the differences among the spectrum of democracies with a economic orientation, but rather analyzes transformation policies as they approach and realize their development goals as well as the state of development.

Market-based democracy as a reform goal: The term “market-based democracy” defines the goal of reform as well as the normative benchmark used by the BTI to assess development and transformation processes. As a term, it expresses the mutually beneficial way in which these two components work together: a representative democracy under the rule of law and a sustainable market economy with sociopolitical safeguards. In contrast to neoliberal concepts, the BTI reflects a European approach with its emphasis on social justice.

Democracies enjoy a much higher degree of legitimacy than authoritarian regimes, which makes them more able to withstand crises. At the same time, long-term legitimacy depends on a certain measure of prosperity and social equality. Affluence is the principal driver of legitimacy in authoritarian systems, although wealth also stimulates the desire for democratic participation in decision-making processes. The combination of constitutional democracy and a market economy with sociopolitical safeguards brings together both of these legitimacy-enhancing elements in a way that allows for lasting consolidation.

The BTI 2008 examines the development and transformation processes of 125 states, six of which are new states for the BTI. Methodologies and questions are largely the same, resulting in data sets that can be directly compared with one another.⁴

A code book with precise parameters, including 17 criteria and 52 questions, was developed to facilitate the analysis, comparison and evaluation of transformation processes.⁵ With the codebook as their guide, country experts provided country reports of approximately 20 pages in length that describe the essential characteristics of transformation and analyze the criteria. A standardized questionnaire was used in translating the results of these reports into numerical values.

All of the reports were reviewed by a second expert, and in almost every case, experts from each country participated in the analysis and assessment. An elaborate multi-stage review process ensures the validity of the data as well as the ability to perform regional and interregional comparisons.

4 For further information, see procedures for calibrating results in “Criteria and Methodology” in this edition.

5 See BTI 2008. Manual for Country Assessments and all 125 country reports are provided on the included CD-ROM.

Good governance: The successful management of transformation requires reform-minded actors. Good governance is a fundamental prerequisite for successful transformation processes. It encompasses the formulation, planning and implementation of strategic goals with appropriate resources.

In its Management Index, the BTI assesses the transformation policies of relevant political actors, which include governments and political elites as well as NGOs and other actors. The BTI examines reform policies aimed at constitutional democracy and a market economy flanked by sociopolitical safeguards.

Whether or not reform policy is “good” depends on the context. The BTI therefore cannot recommend an optimal sequence for reform. In countries where the prerequisites for democracy and a market economy are not yet in place, good reform policies take steps toward creating such prerequisites. In all phases of transformation, the expansion of individual and social liberty is interpreted as a step in the right direction.

Results

The results for the criteria and questions were numerically coded and aggregated into the Bertelsmann Transformation Index. These indices serve as a reliable and meaningful guide to the status of democracy, economic transformation and transformation management, and they enable the identification of strong and weak points. However, it must be emphasized that the tables are only meant to be used as an overview in which each individual value for each country report is given.

The numerical results are represented in two different rankings that illuminate different perspectives on development and transformation:

- The Status Index measures the level of development in relation to the goal of a consolidated democracy and a developed market economy at the start of the 2007 calendar year. These values enable quick access to the strengths and deficits in each country. The Status Index is based on the numerical values for both democratic transformation and economic development, since a deficit in either area can prevent sustainable consolidation. Additionally, a Trend Indicator underscores progress and setbacks over the last two years.
- The Management Index measures political governance in relation to the goals of democracy and market economy. The Management Index correlates actual reform performance with the transformation potential of each country and ascertains whether, and to what extent, possibilities for reform have been exhausted, which makes it an innovative instrument for political analysis and consultancy.

Status Index

The primary goal of the Status Index is not to compare different functional interpretations of democracy and market economy, but rather to explore the actual functionality and sustainability of democratic and economic systems.

Scholars diverge on how to define and assess democracy and a market economy. The BTI draws on the concept of “embedded democracy” (Merkel, Puhle, Croissant Eicher and Thiery 2004). According to this concept, the conduct of free and fair elections constitutes the core of every democracy, yet elections alone are not sufficient in establishing a democratic system.

The BTI criteria therefore explore the extent of state governance capacities, the extent to which civil rights are observed and whether a fundament for the rule of law has been established. The strength of civil society and participatory activity, as well as transparency and accountability, are measured as indicators of how well formal democratic structures actually function. Five criteria, including 18 questions, are used to assess the state of democracy under the rule of law.

The developmental status of market economies is assessed in seven criteria with 14 questions. These measurements encompass more than just economic growth or the extent of market liberalization; they also evaluate the capacity of the economy to guarantee long-term stability by providing sufficient personal liberty to all citizens and creating a stable and reliable economic system that is complemented by a stable and sufficiently sustainable welfare regime.

Status Index criteria

Stateness		Political participation		Rule of law		Stability of democratic institutions		Political and social integration	
Level of socio-economic development	Organization of the market and competition	Currency and price stability	Private property	Welfare regime	Economic performance	Sustain-ability			

The following explains the results of the Status Index, as the accompanying table shows.⁶ In order to facilitate interpretation of the results, they have been ordered into five groups that roughly summarize each status. It is important to note that the boundaries between each group are somewhat loose.⁷

- 6 Criteria scores are provided in the table. It is in the nature of aggregated data to have scores of equal value result from the composite of different values. The events and developments that underlie these scores are explored in greater detail in the following chapters. Each score given is substantiated in the individual country reports.
- 7 This classification is intended solely for rapid orientation. Scores of 8.5 or better are characterized as cases of highly advanced transformation in which the elements of a constitutional representative democracy as well as a market economy with sociopolitical safeguards are generally established. Scores of 7 or better are characterized as cases of advanced transfor-

1. *Highly advanced transformation*

The BTI 2008 shows 14 countries characterized as consolidated or advanced democracies under the rule of law with a market economy flanked by sociopolitical safeguards. This group of top performers is almost identical with that of the BTI 2006. Only Latvia, with an improvement of 0.4 points, joined the top group of the Status Index. Overall, this group consists of nine European states (eight of them new EU member states), two Asian states (Taiwan, South Korea) and three states in Latin America (Chile, Uruguay and Costa Rica). One feature common to all of the countries in this group is their above-average scores for the level of socioeconomic development (≥ 8).

Transformation processes are considered completed and democracy consolidated when they function smoothly through major crises and work well over a long period of time, while transfers of power proceed without problems and economic stability ensures sustainability. There is no exact point at which consolidation can be deemed “completed.” The relatively constant results of three editions of the BTI strongly indicate that the states in this group are undergoing a long process of consolidation. With their accession to the European Union, which includes political and economic embeddedness in a stable legal framework, the eight EU accession states can be considered consolidated market-based democracies. Taiwan and South Korea also fulfill these requirements.

Because these consolidation processes have been so stable, the scores within the top performers have changed only marginally. Thanks to improved socioeconomic conditions, the scores for the Czech Republic have improved slightly. The Czech Republic achieved the highest score in the Status Index of all 125 countries. With its slightly improved scores in the area of market economy, Uruguay jumped four places to rank ninth. Other changes in points and rankings were less than spectacular. It is notable, however, that even controversial governments in EU member states, such as Poland, did not regress significantly.

Croatia—headed for the European Union: The prospect of EU accession serves to facilitate Croatia’s transformation considerably. Croatia began formal negotiations for EU accession on October 3, 2005. The Croatian government is striving ambitiously to complete entire chapters of the accession requirements by the end of 2008, and its integration policies receive broad popular support.

The country now enjoys stable institutions and a functioning political party system. Building on this, Croatia has made progress in the past two years in fortifying the rule of law and in improving the treatment of minorities. There were also notable improvements made to its market economy, although the country struggles with high unemployment rates and insufficient competitiveness.

mation; scores of 5.5 or better, as limited transformation; scores of 4 or above, as significantly curbed transformation. Those scoring below this threshold are characterized as failed states or countries suffering blocked democratic and economic transformation.

In most of the countries currently undergoing consolidation, there is a parallel between the scores for the categories of democracy and market economy. The Latin American states, where scores for democracy are much higher than those for market economy, are an exception to this rule; Uruguay, for example, received the highest mark, 9.9, for its consolidated democracy, yet scored only 7.9 in the area of market economy. Chile and Costa Rica also achieved a high level of democratic consolidation but fell slightly behind in economic transformation.

Mauritius and South Africa achieved high scores for political transformation that would have guaranteed them a ranking in the top group, but the development status of their market economies remains an immense obstacle to consolidation. The situation in Singapore is the complete opposite. While Singapore and the Czech Republic are tied as the best performers with scores of 9.5 for market transformation, the fact that Singapore is an authoritarian state means that its democracy score is quite low. This keeps Singapore from joining the top group.

2. Advanced transformation

The Bertelsmann Transformation Index certifies 19 states as advanced in terms of transformation. They have in common the fact that their chances of consolidating constitutional democracy and a market economy with sociopolitical safeguards are good. The states in this group, with one exception, all have functioning democracies, and all of them have developed market economies. Within this general category, there are a number of expressly different transformation processes.

At the upper end of this group, the new EU member states of Bulgaria and Romania, as well as Mauritius, received scores that rank them just below the group of states with highly advanced transformation. The worst values in the group of countries with advanced transformation are found in Serbia, Turkey and Albania. Their overall result in the Status Index is only somewhat better than that of El Salvador or Ukraine, which lead the group of countries with limited transformation.

All 19 states in the group of countries with advanced transformation are oriented toward development and use their resources for the implementation of reform policies. Nonetheless, they are quite heterogeneous; most of the countries have a medium level of development (5–7), with two exceptions above the average (Singapore 10, Mauritius 8) and one below (Namibia 4). Eighteen of 19 states in this category are democracies, and, with the exception of Turkey, they all have higher values in the area of democratic development than in their economic development status.

The second group of the Status Index includes six states from East-Central and Southeast Europe (although no European CIS states). Mauritius, South Africa, Botswana, Namibia and Ghana are the most successful African states in terms of transformation. Five Latin American transformation states (Brazil, Jamaica, Panama, Argentina and Mexico) are also in this group, as are the two Asian countries of India and Singapore.

In comparison with the BTI 2006, the results for most of these states have changed little. There were measurable steps taken toward transformation in six states, four of them in Europe. Bulgaria and Romania showed progress primarily in terms of the rule of law, as well as in economic performance. Growth in Macedonia and Albania can be attributed to gains made in each country's economic development. Panama and Ghana achieved significantly higher scores in terms of sustainable economic development.

New states in this group include Montenegro, a new country for the BTI 2008 as well; Turkey, which slightly improved its Status Index score while democratic development remained stagnant; and Albania, which has made significant improvements since 2006. El Salvador and Thailand dropped out of this group. While El Salvador received scores almost identical to those of 2006, which put the country in the gray zone between the second and third group, Thailand's military putsch markedly lowered its score.

With an overall result of 7.5, Singapore, the only autocracy that could have placed in this group, fell behind. This can be explained by the 4.2-point difference between its market economy and its democracy score.

India—a democracy rich in tradition: India has a long democratic tradition that has been interrupted only once and for a short period of time in the 1970s. Democratic institutions are stable and functional, and there are no anti-democratic veto actors. Deficits in India's democracy are to be found in the area of rule of law: a sluggish justice system, weaknesses in law enforcement, a lack of political neutrality in the police force, and insufficient protections for civil rights.

Since the early 1990s, India has experienced broad, fast and successful economic growth. The country's rapid change into a powerhouse of industry and service provisioning succeeded despite some reform deficits, among them high domestic debt, an outdated infrastructure and the only gradual adaptation of the economy to international standards. The Indian government aims to achieve the status of a fully developed industrial state and an influential global political actor by the year 2020.

One common feature among the Southeast European states is they have been working on European integration for some time now. Bulgaria and Romania owe their progress primarily to the strictly regulated accession process; they were able to avoid a delay in their accession processes and now, as EU member states, they are embarking upon a course of consolidation with excellent prospects for success.

Turkey had also hoped to begin the accession process so that it too could enjoy the acceleration effect on its transformation. However, after an initial period of enthusiasm for reform, the country has become an obstacle to its own transformation. Turkey has progressed slowly on rule of law issues, and it has had very little success in developing acceptance and support for democratic institutions and processes. There

have been significant improvements, however, in economic transformation, as shown in the level of socioeconomic development, organization of the market and sustainability.

Although the Balkan states do not have a specific timeline for accession, they have close relations with the European Union, including treaties of association with an accession option. Macedonia, Serbia, Montenegro and Albania all have solid development prospects and have made significant political and economic progress in the past two years.

Results for the five African states have either remained stable (South Africa and Botswana) or slightly improved (Mauritius, Ghana and Namibia). All of these states have relatively stable democracies, yet their greatest danger is their limited socioeconomic development, especially in comparison to similarly ranked states. This also applies to the five Latin American states, which all have good prospects for consolidation. These societies have high disparities in wealth distribution and corresponding social tensions; they have only reached middle values in the categories of rule of law and social integration.

3. Limited transformation

This middle group of countries consists of 36 states that exhibit significant deficits with regard to a constitutional democracy and market economy with sociopolitical safeguards. As such, it is the largest group in the Status Index. One striking feature of this group is that practically all of the countries have major weaknesses in the rule of law. Aside from Bahrain, Thailand and Malaysia, which are in this group because of their market economy ratings, all of the states have a low to middle level of socioeconomic development.

Changes in the rankings since the BTI 2006 have been negligible for a large majority of these states. There are, however, a few important shifts. El Salvador, Ukraine, the Dominican Republic and Sri Lanka are at the upper end of the group, and their democracies are not in acute danger. The majority of the countries in this group are rated more or less as highly defective democracies. There are only four authoritarian regimes in this group: Malaysia, Thailand, Bahrain and Kazakhstan. A few other states—Armenia, Colombia, Russia, the Philippines and Nigeria—can be categorized as highly defective democracies according to BTI criteria. These states exhibit major deficits in basic democratic criteria; some are even teetering on the brink of becoming authoritarian regimes. Some of the countries in this group have regular elections, although those who hold power know how to sharply curb the opposition's power.

With nine defective democracies, Latin America and the Caribbean remain strongly represented in this category. The Dominican Republic has shown significant progress since 2006, with high growth rates and a market economy stabilized by successful attempts to curb inflation.

A common feature of the eight states in the CIS region and Mongolia is weakly rooted democratic traditions. While Georgia was able to improve its political and economic development, Ukraine has made surprisingly little progress in both democratization and economic transformation after its democratic breakthrough. Moderate improvements in the political arena were diminished by setbacks in the area of economic development. Moldavia and Kyrgyzstan were able to improve all five of their democratic criteria.

All ten African states in this category have an extremely low level of development, with values between two and three. Although the example of Mali proves that democratic systems can take root in even the poorest countries on earth, weak development dynamics continue to put the brakes on consolidation. In comparison to 2006, the values for the African states have barely changed. Only Mozambique suffered a setback, which can be attributed to deficits in the rule of law.

While Lebanon achieved better values for the democracy criteria, Bangladesh received weaker scores in the areas of rule of law and stability of democratic institutions. Thailand, after the fall of its democratic government and the subsequent establishment of a military dictatorship, fell more than 30 ranks, landing in a much lower category than in 2006. Thailand has been categorized as an authoritarian state for the first time in the BTI 2008, which shows that transformation processes are not a one-way street.

Democracies, autocracies and failed states: The BTI draws a clear line between democratic and nondemocratic states (autocracies). States are considered democracies when they meet minimum thresholds for the following criteria: stateness, free and fair elections, political participation, separation of powers and the guarantee of civil rights.

The BTI categorizes 75 of all 125 states as democratic. While only 23 democracies have no major defects, ten states are classified as "highly defective democracies." They only barely meet the minimum criteria, suffer from significant problems with the rule of law, have limited equality of opportunity for the opposition, and often experience electoral manipulation. There is a gray zone between autocracy and democracy, and the transition to facade democracies is rather blurry. In comparison with the BTI 2006, Kyrgyzstan, Burundi, Liberia and Haiti have climbed the ranks to join the group of (highly defective) democracies.

Fifty states do not even fulfill the minimal requirements of a democratic state. The BTI distinguishes three groups of autocracies: along with moderate and hardline autocracies, which differ in the exercise of power and rule of law, seven states—Somalia, Afghanistan, the Central African Republic, the Democratic Republic of Congo, Côte d'Ivoire, Chad and Iraq—have been classified as "failed states" due to the erosion of stateness. Although Afghanistan, the Central African Republic, the Democratic Republic of Congo and Iraq are ruled by democratically elected governments, they do not have sufficient power or resources to govern. Now ruled by a military regime, Thailand is no longer considered a democ-

racy. The continued erosion of stateness in Afghanistan warrants its classification as a “failed state.”⁸

4. *Very limited transformation*

Thirty-one states face bleak prospects with regard to establishing democracy and a market economy in the near future. Although there are 12 democratic governments in this group, major defects prevent the BTI from classifying them as able to withstand crisis. Weak or absent democratic institutions, underdeveloped systems for the rule of law and the absence of democratic traditions are common to all the countries in this category, almost all of which suffer from major underdevelopment syndromes. Seven of the states in this category—most of them in Africa—number among the poorest countries in the world.

Papua New Guinea, Guatemala, Burkina Faso and Tunisia lead this group, which contains six Asian, nine African and four Latin American states. Belarus is the only CIS state in this group. The Middle East and North Africa, with ten countries, is the most represented region in the group. The oil states of Oman, the UAE and Kuwait form a subgroup whose economies provide a solid barrier that repels political reform pressures. China and Belarus are also special cases; although they have a relatively high level of development, political reforms lag far behind.

The composition of this group has changed slightly in comparison with the BTI 2006. Venezuela’s democracy further deteriorated, to the point that the country has dropped from the third to the fourth group. Burundi, Cuba, Liberia, Haiti and the Central African Republic received higher ratings than in 2006 and ascended into this fourth group.

Liberia—a new democratic start: After the presidential elections of 2006, Liberia rejoined the ranks of the democratic states in the BTI 2008. Elected President Ellen Johnson-Sirleaf, a former World Bank expert on development, may prove to be a godsend for Liberia, a country completely destroyed by 15 years of civil war, if she can establish a solid government that can go about reconstructing the broken country.

This task seems immeasurably enormous. The country is poor, ravaged by war and the destructive rule of the warlords; 90 percent of the population is unemployed; there is a dearth of schools, modern infrastructure or qualified experts. Corruption rates are exorbitant, and to make matters worse, Liberia is surrounded by areas in crisis.

8 For further information on the criteria used to differentiate democracies from autocracies, see “Criteria and Methodology” in this edition. For information on the classifications for political systems used here, see p. 68.

Johnson-Sirleaf has managed to have international sanctions against Liberia lifted, stimulate trade in natural resources and cooperate closely with UN peacekeeping troops and donor countries. She came into office with the goal of proving that even a completely destroyed country like Liberia can look to a better future.

Five states in this group showed significant improvement in their overall results in the Status Index. In Cuba, political conditions have not changed, despite Castro's provisional retirement; however, thanks to cooperation with China and Venezuela, Cuba has experienced almost double-digit economic growth. But in Burundi, Liberia and Haiti, political conditions have undergone significant changes; these three states are now classified as (highly defective) democracies. Their weak economic performance, however, continues to limit further transformation potential.

5. Failed or blocked transformation

In the BTI 2008, the group with the worst ratings consists of 25 states. Ethiopia, Rwanda and Guinea have joined this group since the BTI 2006. The states classified in this category have long failed to meet the necessary prerequisites for establishing a constitutional democracy and a market economy with sociopolitical safeguards. None of the states in this group have adequate rule of law structures, sufficient democratic traditions or even a medium level of development.

Once again, there are two types of states in this category. There are the hardline authoritarian regimes, such as Turkmenistan, North Korea or Myanmar, and then there are those countries where immense problems lead to the absence of resources and structures for the implementation of development-oriented policies.

All of the governments in this category are either autocracies or "failed states." Although Afghanistan and Iraq have democratically elected governments, they do not have adequate power structures at their disposal to enforce democratic decision beyond the capital. In Côte d'Ivoire and Somalia, the absence of a state monopoly on the use of force hinders the ability of rulers to translate their authority into political action.

The status of transformation in Rwanda, Guinea, Chad, Iraq and Eritrea has deteriorated further, due to the collapse of rule of law and security. The Democratic Republic of Congo received better scores, thanks to elections and improvements in the security situation, at least before violent riots broke out in March 2007.

Trend Indicator

As a supplement to the Status Index, the Bertelsmann Transformation Index includes a Trend Indicator that—alongside the current status—provides information on fluctuations in the status of democratic and economic development. While the Status Index points to current circumstances, the Trend Indicator measures variations in scores over the past two years. For the first time, the Trend Indicator in the BTI 2008 was not determined separately from the corresponding criteria; instead, it was calculated as the difference between the current (2008) and the preceding (2006) Status Index scores.

The indicators, which are incorporated into the Status Index table, show where significant changes have occurred during the past two years. A diagonal arrow pointing upward stands for improvements of at least 0.5 points; downward, for deterioration of at least 0.5 points. Major changes of at least 1.0 point in an overall Status Index score are highlighted with a vertical arrow.

The Trend Indicator makes clear that alongside stability and stagnation in many BTI countries, important changes have occurred in others. Fourteen states have improved their scores on the democracy criteria by at least 0.5 points. These changes are especially great in seven states; Burundi, Haiti, Kyrgyzstan and Liberia moved into the democratic camp during the period under review. This is a qualitative leap based on democratically conducted elections. However, we must not forget that the deficiencies of these new democracies are substantial and that their continuing existence is beset by great challenges. In addition, Moldova—a state that was already classified as a democracy in 2003 and 2006—has made extensive progress toward stabilization.

A similarly positive trend can be seen in the Central African Republic and the Democratic Republic of Congo. However, these states are not classified as democracies for the following reasons: In the CAR, the state does not have a monopoly on the use of force in most parts of the country, and the DR Congo does not even come close to protecting civil rights.

Regarding the status of economic transformation, a total of 19 states representing all of the BTI regions achieved scores at least 0.5 points higher than two years ago. Georgia's scores improved the most, mainly in the categories of market organization and privatization. By stabilizing its democracy, fighting corruption and smuggling, and reforming its tax and fiscal policy, the country has also become more attractive to investors and enhanced its economic performance.

In contrast, deterioration in the quality of democracy was observed in eight countries. Thailand—where an authoritarian military government took charge—flattered the most here. Thailand is thus no longer defined as a democracy in the BTI 2008. Its domestic political crises and resultant insecurity about the future are increasingly stifling its economy. Consumer confidence collapsed after a series of bad economic policy decisions, as did private investment.

There is no identifiable common syndrome behind the decline in democracy scores. In Eritrea, the political system is eroding, while in Rwanda it suffers from the

Table 1: Trend Indicator: Changes BTI 2006 to BTI 2008

Countries with improved overall scores for political transformation	Countries with worse overall scores for political transformation	Countries with improved overall scores for economic transformation	Countries with worse overall scores for economic transformation
Burundi ▲	Thailand ▼	Georgia ▲	Rwanda
Liberia ▲	Eritrea	Egypt	Guinea
Kyrgyzstan ▲	Chad	Cuba	Thailand
Moldova ▲	Philippines	Liberia	Chad
DR Congo ▲	Senegal	Albania	Mozambique
Haiti ▲	Bangladesh	Bulgaria	Senegal
Central African Republic	Rwanda	Central African Republic	Zambia
Uganda	Venezuela	Macedonia	
Georgia		Nigeria	
Lebanon		Algeria	
Iraq		Czech Republic	
Afghanistan		Dominican Republic	
Angola		Malawi	
Kenya		Saudi Arabia	
		Haiti	
		Papua New Guinea	
		Libya	
		Romania	
		Turkey	

Countries are sorted by the magnitude of change in their overall scores.

▼ ▲ stands for major changes (≥ 1.0); no arrow indicates changes (≥ 0.5)

consequences of civil war, extreme poverty and unresolved ethnic conflicts. The calculated dismantling of democratic rights in Venezuela and the mutual blockade of two power-hungry party leaders in Bangladesh account for their declining results. Despite the strong global economy, seven states (six of them in Africa) also dropped behind in their status of market economy development.

Management Index

In nearly all states, success in development and transformation toward a constitutional democracy and a market economy flanked by sociopolitical safeguards is the result of calculated reform policy. Factors alleged to promote democracy—such as a wealth of raw materials—lead to neither democracy nor a prosperous society, as a rule. To the contrary, the rentier states, in particular, show that this can reduce pressure to reform.

The Management Index accordingly examines how successful reform policy is in leading toward democracy and a market economy in the 125 states under study. The

index considers each country's available possibilities and asks how well this potential is being exploited. The key question here: "How consistent and reliable have the government and central agents of reform been in establishing or consolidating a constitutional democracy and a market economy flanked by sociopolitical safeguards?"

The reference to both democracy *and* market economy implies that actors who pursue steps toward only one of these reform goals certainly may practice outstanding management in a general sense; however, they can receive at best average scores in the Management Index.

The Management Index analyzes the process of reform policy over a two-year period from the start of 2005 to the start of 2007. This time frame is necessary in order to grasp both the strategic relevance and the implementation of transformation policy. The index incorporates a criterion measuring the level of difficulty for transformation, because the scope of action for good management performance is heavily influenced by structural factors. In addition to this, four criteria with a total of 14 questions constitute the framework for analyzing the quality of a country's transformation management.

Level of difficulty	Steering capability	Resource efficiency	Consensus-building	International cooperation
Presence of structural problems; traditions of civil society; ethnic, religious and social conflicts; per capita income; education level; stateness and the rule of law.	The political leadership manages reform effectively and can achieve its policy priorities.	The government makes optimum use of available resources.	The political leadership establishes a broad consensus on reform with other actors in society, without sacrificing its reform goals.	The country's political actors are willing to cooperate with outside supporters, organizations and neighboring states.

To better orient the reader, the Management Index, too, relies on the tried and tested classification of findings in five main categories. The boundaries between these categories are blurry; when a state is on the border between two groups, elements of both groups' descriptions are applicable.⁹

9 This classification is intended solely for rapid orientation. It is impossible to draw an exact, scientifically sound boundary between these groups. Scores of 7.0 or better are characterized as cases of successful management; scores of 5.6 or better, as successful with weaknesses; scores of 4.3 or better, as moderately successful; scores of 3.0 or better, as management with limited success. Below this threshold, management is said to be failed or nonexistent with regard to the goal of a market-based democracy.

1. *Successful management*

Seven of the 125 states studied were able to tap their full potential for transformation and practice successful management toward the goals of democracy and a market economy. Among these are two European states (Estonia, Slovakia), two African (Botswana, Mauritius), two Asian (South Korea, Taiwan), and one Latin American (Chile). This shows that good governance can be viable and capable of succeeding in many variations and under quite diverse conditions.

Even though the Management Index can show relatively rapid course changes due to the character of the process it measures, the stability of the top group—now led by Chile—is striking. All of the states at this level already distinguished themselves in the BTI 2003 and BTI 2006 as unqualified successes.¹⁰ They share a common denominator insofar as their governments have pursued policies aimed at democracy and a market economy for quite some time, they had already completed the essential reform steps toward this end in the 1990s and can now look back at an established culture of transformation. They are far along in the transformation process and, accordingly, place among the top 20 in the Status Index ranking.

This may indicate that successful transformation management cannot be conducted in an ad hoc manner; instead, it needs the infrastructure of a rather long-term reform process. This precondition is present in the top-ranking states, as is expressed in their quite moderate level of difficulty. In other respects, though, these seven countries illustrate how varied the course of successful development and transformation can be:

- From 1990 onward, Chile has worked to overcome the consequences of the Pinochet dictatorship. While its consolidation is advanced, the country still struggles with extreme social inequality.
- Estonia and Slovakia mastered a threefold transformation to democracy, a market economy, and state independence after the fall of the Iron Curtain. They completed this process with their accession to the European Union in 2005.
- Botswana has used its rich supply of diamonds (discovered in the 1960s) for its economic and democratic transformation. High unemployment and horrific AIDS rates are its greatest obstacles to consolidation.
- With skillful economic management, Mauritius achieved the diversification of its economy, which was originally based primarily on sugar.
- The transformation of South Korea and Taiwan began in the 1960s in the form of rigorous development regimes. Their economic ascendancy is what first created the conditions for establishing their now-consolidated democracies.

10 Mauritius was not included in the BTI 2003.

Chile—a continuous consolidation course: Constitutional reform in 2005 annulled the last remaining institutional traces of Augusto Pinochet's regime; it eliminated authoritarian enclaves and thus weakened the military's role in politics. Military force is now subordinated to the executive's authority.

Chile has a constitutional democracy with stable institutions. Even in practice, political and social groups enjoy unrestricted freedom of assembly, opinion, and press. The media landscape is diverse and also features independent television and radio broadcasters. However, free development of the press is stunted by a private media monopoly. Market-oriented competition policy and the further development of the welfare state exemplify Chile's progress in recent years.

2. *Successful management with weaknesses*

The BTI 2008 identifies a total of 39 states that have practiced successful transformation management with weaknesses during the past two years. In view of the BTI's approach, this group's heterogeneous composition is especially interesting, for it substantiates the notion that successful management can result from quite different initial conditions, agents of reform and reform strategies.

Uruguay, Croatia, Latvia, South Africa and Slovenia are located in the upper part of this group, just barely trailing the top group. Niger, the Dominican Republic and Albania round out the bottom of the group. A striking change from the 2006 results is that Slovenia and Lithuania are no longer in the top group. Conversely, in 2006 transformation management in Zambia, Peru, Uganda, Paraguay, the Dominican Republic and Albania was not yet assessed as "successful with weaknesses."

The 39 states represented here include both small states such as Macedonia and large states such as Brazil and India. All but Singapore are democracies that achieved at least average scores for stateness and the rule of law. The range extends from democracies scoring at the top of scale—Uruguay (9.9) and Slovenia (9.7)—to the highly defective democracy of Mauritania (4.6). A similar distribution can be seen for socioeconomic performance and the level of difficulty, where the scores vary considerably (between 1 and 7.6).

Twelve African states constitute the largest geographic subgroup. They show that transformation policy aimed at democracy and market economy has borne fruit in this region during the past two years, too. South Africa continues to hold a special position here, expressed partly in a low level of difficulty by regional standards. A glance at the African countries' income distribution confirms this: Ghana, Mali, Madagascar, Benin, Senegal, Mauritania, Tanzania, Zambia, Uganda and Niger are all poor countries with a per capita gross domestic product (PPP) well under \$2,500. Their low incomes make these countries profoundly dependent on external donors

and institutions, as well as on their funding conditions. Transformation management in these countries accordingly focuses on improving their economic base.

In this group's 11 Latin American countries, the problem often lies in the large spread between rich and poor. A shared feature of almost all of these states is that they do not efficiently use their available economic and political resources to further transformation. They struggle especially with balancing conflicting goals and with combating often-widespread corruption. While Uruguay, Brazil and Costa Rica—at the top of the group—are threshold countries with comparatively high democratic standards, states such as Panama, Peru, Paraguay and the Dominican Republic have difficulty strengthening their democracy and market economies.

It initially appears paradoxical that there are 11 European states in the group where reform policy is successful, though limited in its success. Some of these countries lead the pack in the Status Index and have achieved great success with democracy and a market economy through their accession to the European Union. The reason for this is that in the cases of Latvia, Slovenia, Lithuania and the Czech Republic, there was substantially less need for reform once accession negotiations—which were shaped by EU standards—were concluded.

This context helps explain why Croatia (in 9th place) achieved good results through its efforts to join the European Union, as did two states that acceded in 2007, Bulgaria (13th) and Romania (22nd). Montenegro and Albania exhibit significant deficiencies in implementing reforms.

Turkey—a weak rule of law: Turkey's 2007 presidential election showed that Turkish democracy still has a problem with the military's self-conception as the watchdog of politics, even though reforms in 2004 and 2005 have massively circumscribed the authority and power of its National Security Council.

Although progress has been made in protecting civil and political rights, Paragraph 301 of the Turkish penal code and some articles of its anti-terror law restrict literary and journalistic freedom. Convictions for "insulting Turkishness" continue to be the order of the day. Protection of minority rights is insufficiently guaranteed.

Formal negotiations on Turkey's accession to the European Union began in 2005, which constitutes a milestone in Turkey's transformation. The tensions that have arisen on both sides in the negotiating process illustrate that establishing closer relations will likely be a protracted process.

3. *Management with moderate success*

There are 44 states in the midrange of the management ranking with moderate success in moving toward democracy and a market economy. At the threshold between the second and third groups are Nicaragua, Nigeria, Malaysia, Malawi, Serbia and Sri

Lanka. Three states that scored considerably higher on transformation management in 2006—Poland, Mozambique and Sierra Leone—are also in the upper range of the group. Tajikistan, Afghanistan and Pakistan are at the bottom of the group. Seven countries that were less successful in 2006 moved up to this group: United Arab Emirates, Kenya, Nepal, Liberia, Burundi, Haiti and Moldova.

There are fundamentally different cases of transformation represented in the overall ranking results, suggesting that one should examine the individual cases in more depth:

- In Poland, “moderate success” stems from the much-abated need for reform following achievement of the goal of accession, combined with regressive populist policies.
- In Ukraine, “moderate success” stands for a reform course influenced by resistance, difficult political constellations, and limited management abilities, which has failed to fulfill the hopes placed in it just two years ago. This phenomenon also exists in Latin America, though in quite different contexts.
- Market reforms have been comparatively successful in China and Vietnam, and to an extent in some Middle Eastern countries. At the same time, progress has failed to materialize in the dimensions of democracy relevant to the BTI.
- Finally, in Afghanistan—which is classified as a failed state—a democratic government is laboring without the resources to guarantee security and order throughout its entire national territory. In this respect, the will to reform—which is doubtless present—cannot be implemented. This basic problem can also be found in other poor developing countries, sometimes in a less explosive form.

Thailand—a return to autocracy: Since 2006, the military has ruled in the Kingdom of Thailand, controlling the government, the press and constitutional institutions. Serious deficits have been documented in the areas of political participation, the rule of law, the stability of democratic institutions, and political and social integration. The press and the cabinet are controlled by the National Security Council. Freedom of assembly and freedom of opinion are heavily restricted.

The country’s greatest deficiencies in transformation lie in its high rates of corruption, social inequality and poverty, along with only rudimentary social structures. There are many indications that the military is preparing to retain its position of power in the National Security Council even after democracy has been reintroduced.

A total of 27 democratically governed states achieved moderate success in transformation. Apart from Poland, all of them can be described as defective democracies. The defects in some of these states are so formidable that they raise the question of the extent to which democratic reforms are—or can be—sought and pursued in practice. This is the case in Colombia, Guatemala, Liberia, Burundi, Kyrgyzstan and Haiti. Seventeen regimes in this group cannot be described as democracies. In most of these cases, reforms are limited to the pursuit of economic goals.

4. *Weak management*

In 18 of the states studied in the BTI 2008, reform policies showed serious deficiencies, were barely negligible, or were limited to specific aspects of democracy and a market economy. This group is led by Ethiopia, Egypt and Bangladesh; bringing up the rear are the DR Congo, Libya and Angola. Unsurprisingly, the group is composed of 15 autocracies and failed states and only three highly defective democracies—Bangladesh, Russia and Ecuador.

Despite its successful macroeconomic stabilization, Bangladesh declined sharply in the Management Index because its governance capability is limited by ongoing political polarization. Political actors in Ecuador repeatedly demonstrated a lack of respect for the ground rules of democracy, as authoritarian tendencies and populism have begun to replace genuine reform policy. The relative stability of the Management Index findings compared to the BTI 2006 is striking. However, this group does include two countries—Togo and the DR Congo—for which no palpable success could even be documented just two years earlier.

In Togo, political pressure and a perpetual crisis forced the president, who had taken office after manipulated elections, to return to the negotiating table. A consensus was then achieved on forming a government of national unity and holding democratic elections before October 2007. On its way from being a failed state to becoming a post-conflict country, the DR Congo has managed to sustain its fragile peace process throughout this difficult transition. It has also successfully organized and conducted elections that began to restore the shattered legitimacy of its political institutions. These were important first steps toward assuring the country's stability, which is still at great risk.

Russia—at the threshold of autocracy: The Russian government defines itself as “a democratic state that shares European values.” In fact, however, there are growing indications that President Putin’s model of “guided democracy” is sinking ever further toward autocracy. Although the state and economy have been stabilized, this has been achieved at the price of democratic rights.

This syndrome shares familiar characteristics with other highly defective democracies: a concentration of power, systematic obstruction of the opposition, growing control over critical media, restriction of civil rights, and also state intervention in the economy. To make matters worse, institutionalized democratic checks and balances are increasingly undermined.

This constellation is fostered by a society almost entirely lacking in democratic traditions, which is largely politically apathetic and oriented toward stability. It is further promoted by Russia’s comeback as a global power, which has been driven by Putin and nourished by its rich raw material reserves. The BTI locates Russia in a gray area between democracy and autocracy, categorizing the state as a highly defective democracy.

Despite their heterogeneity, the states in this group can be divided into three subgroups:

- One group is made up of those developing countries burdened by a weak capacity for action and a poor resource base that creates immense barriers to transformation. Ethiopia, the Republic of Congo, Togo, Cameroon, Angola, Bangladesh and Yemen are among the poorest countries and depend on external aid.
- Kuwait, Saudi Arabia, Libya and Egypt have a stronger starting position: Extensive resources simplify transformation management. However, the maxim of all reform in this subgroup is that it cannot touch the question of who wields power. In a simplified view, Russia can be classified in this group too.
- The third subgroup comprises the hard autocracies and those states rigidly opposed to transformation. Laos and Cambodia represent examples of states that are not pursuing political reform.

5. *Failed or nonexistent management*

Finally, in 17 states it was impossible to measure any appreciable transformation policy. The states represented here either do not view themselves as transformation states or lack the resources necessary for reform policy. None of these states scores better than 3.3 on steering capability.

A glance at the level of difficulty shows that 11 of the states in this group are contending with huge structural problems and have an extremely low gross domestic product. Moreover, six of them (Sudan, Chad, Guinea, Iraq, Côte d’Ivoire, Eritrea and Somalia) have low levels of education. Failed states, such as Somalia, and regimes in the midst of civil war, such as Côte d’Ivoire and Iraq, lack the basic pre-conditions for promising stabilization and state-building policies.

Venezuela and “21st-century socialism”: Venezuela has changed profoundly under President Hugo Chávez, who has governed since 1999 and was reelected with a strong majority in 2006. The president’s success can be traced back to numerous initiatives under the motto of “21st-century socialism.” His social and educational programs aim to rapidly improve the living conditions of the poor. They are financed through the redistribution of oil profits. Venezuela obtains about half of its public revenue from oil industry earnings.

Although Chávez is addressing an important problem of Latin American societies—distributive justice—his management of transformation is not aimed at the goals of democracy and a market economy. Despite his rhetoric, he has failed to take essential steps in advancing a social policy that would have a structural impact. Chávez has nevertheless fundamentally changed Venezuela’s political landscape since taking office. To consolidate his power, he has substantially weakened democratic control mechanisms (courts, parliament and the media). Despite growth driven by oil, the Venezuelan economy suffers from major structural weaknesses. Large sectors of industry have been mothballed and the development of state industry is planned with the goal of achieving national economic independence.

Although he has allowed Venezuela's democratic structures to gradually erode, Chávez enjoys high approval ratings. The parties in the government's camp won all the seats in the last parliamentary elections, following a boycott by the opposition.

Eight states can be classified as hardline opponents of transformation: Belarus, Cuba, Iran, Syria, Venezuela, Turkmenistan, Myanmar and North Korea. Each of these countries has a functioning central government, a relatively well-educated citizenry and a sizeable development potential. Authoritarian potentates who pursue policies not aimed at transformation are the main issue here. For instance, Iran and Venezuela have embarked on a populist course, while Syria and Turkmenistan suppress all demands for change.

Conclusions

States in all of the BTI regions—but by no means all of the 125 states studied—are pursuing the objective of constitutional democracy and a market economy flanked by sociopolitical safeguards. BTI 2008 findings and previous experience show that this normative objective is fundamentally appropriate to all regions but unattainable in the short run for most of the states studied.

The illusion that quantum leaps in transformation are feasible in the short term is not corroborated by the findings of the BTI 2008, however. “Historic” changes, democratic revolutions, and the collapse of authoritarian regimes are rare exceptions in the course of contemporary history. The same goes for charismatic governments capable of redressing their deficiencies or defects of political, social and economic development with determination, success and sustainability.

The states that top the BTI ranking show by example that achieving a consolidated constitutional democracy with a market economy flanked by sociopolitical safeguards is generally a protracted process with many obstacles. The decisive parameters in this process are the available resources, initial conditions in political culture and the economy, and political actors' consistent will and ability to reform.

Central and Eastern Europe's recent history shows that transformation can be steered by agents of reform, supported from the outside and completed relatively quickly (in less than two decades). The distance covered by Asia's models of success over four decades is far greater. At the same time, recent developments in Afghanistan and Iraq make clear that such success stories cannot be forced from the outside.

From a regional perspective, however, the BTI findings also point out how variable the challenges and trajectories of transformation can be.¹¹

11 Here and below, see the BTI regional reports in this volume.

- Even today, *East-Central and Southeast Europe* is distinguished from every other region of the world by the fact that the prospect of EU membership offers an important goal for the transformation process. The accession of Bulgaria and Romania to the European Union on January 1, 2007, recognized the achievements in transformation that both countries have made in the 15 years since the end of the East-West conflict.

During the past two years, the region continued to be shaped by the further consolidation of democracy and market economies. In the East-Central European countries, however, this general trend was overshadowed by political polarization and a resurgence of populist parties, which was most pronounced in Poland. In the Southeast European countries, one can observe further dissolution and reconstitution of states, as well as progress toward membership in the European Union.
- The dynamic revolutionary phase in the *CIS and Mongolia* region is over, too. The hope that it would touch off a regional wave of democratization has not been fulfilled. The dynamics of transformation have run out of steam, and opposing trends can be observed: Stagnation and regression—especially in the consolidated autocracies of Belarus, Turkmenistan and Uzbekistan, and also in Russia, with its trend of reverting to autocracy—are paired with slight positive changes in the defective democracies of Georgia and Kyrgyzstan and also in Moldova.

The great hopes of recent years have failed to consistently deliver on their promise. Multiple cabinet crises have been observed in Ukraine, authoritarian tendencies in Georgia and exceedingly unstable circumstances in Kyrgyzstan. Armenia’s parliamentary elections, assessed as free and fair, recently offered a glimmer of hope.
- In the *Middle East and North Africa*, hopes of an “Arab spring” have remained unfulfilled. These hopes had been buttressed by the free parliamentary elections in Lebanon, the extension of suffrage to women in Kuwait, and the Egyptian government’s policy of openness in the runup to parliamentary elections. A preference for greater pluralism is indeed spreading in the region. But at the same time, Islamist anti-government movements are gaining importance as the mouthpiece for a growing mass of those who stand to lose from modernization.

Turkey, Lebanon and Iraq—which is classified as a failed state—are the region’s only democratic governments. Other states do not allow for changes in government through elections. Only Turkey can boast progress in transformation toward democracy and a market economy in the course of its EU accession talks. In a majority of the region’s other states, reforms are at best adopted and implemented in the economic area, if at all.
- The region of *South and East Africa* shows very little change overall. As democracies with only minor deficiencies, South Africa, Botswana, Mauritius and Namibia are shining examples for the region. A number of states managed to make progress, albeit at a low level in some cases: Namibia, Uganda and Malawi stabilized their democratic systems. Whereas Burundi moved up to the ranks of democratic

states, Angola fell short of this goal but was able to further stabilize the peace that has endured since 2002.

Like Angola, the states of Zimbabwe, Eritrea, Rwanda and Ethiopia do not have democratic systems of government. Somalia constitutes a special case; for the past decade and a half it has not even had the rudiments of functioning stateness, and it is sinking into chaos. Like other regions, South and East Africa has profited from a strong global economy and growth rates. Even so, the level of economic and social development is still low and falls short of enabling the government to fight poverty in a substantive and sustainable way.

- In no other region of the BTI is transformation management as difficult as in *West and Central Africa*. By far the greatest barriers to transformation in this region are structural problems ranging from extreme poverty, a lack of education, and infrastructural deficiencies to failed states, natural catastrophes and disease. In half of the countries in this region these problems are massive, and even more so in war-torn countries such as the DR Congo, Liberia, Sierra Leone and the Central African Republic. West and Central Africa continues to exhibit a low level of transformation, with its political deficits definitely less pronounced than its economic ones.

However, a number of these states are in flux. Pacification of armed conflicts, democratic elections and booming raw materials markets are the key positive changes here. DR Congo, Liberia, the Central African Republic, and (later) Mauritania all held presidential elections, each of which can be regarded as a spectacular gain in transformation. Togo's new government also scored better than in the BTI 2006. But given the ongoing unfavorable conditions for transformation in West and Central Africa, external aid remains indispensable.

- In *Asia and Oceania*, progress toward democracy has become a rarity in recent years. Economic and democratic transformation continue to be decoupled from one another. Only nine of the region's 21 states are democratic regimes. The overall level of democratic transformation has undergone only trivial change. At the same time, there is no noticeable trend toward liberalization in most of the autocracies.

In Bangladesh, the Philippines and Thailand, domestic political polarization has greatly increased in recent years, while the role of the military has appreciated. In contrast, the quality of democracy has continued to improve in India. In contrast, the state of economic transformation in the region fares better as the booming economies of India, China and Vietnam in particular have made progress here.

- In *Latin America and the Caribbean*, the second-strongest transformation region after East-Central and Southeast Europe, the trend has continued toward relative democratic stability and growing economic dynamism. However, the continent is drifting apart politically. Whereas the Cono Sur countries (Argentina, Chile and Uruguay) and Brazil have further stabilized, the Andean countries' problems have continued to grow. While Haiti maintains its status as a democracy after its 2006 elections, democratic institutions in Venezuela continue to be undermined. In the

economic realm, too, the country is touting a “21st-century socialism” based on raw materials profits—a decidedly anti-economic policy.

Although the global picture of transformation points to a certain sluggishness, the changes highlighted in the Trend Indicator still testify to some significant findings:

- Conditions for democracy have clearly improved in 14 states—and in seven of these, dramatically so. The end of violent unrest or civil war, the peaceful conduct of democratic elections followed by a new beginning, and even the accession of two more transformation states to the European Union can definitely be viewed as spectacular events. The same applies for the 19 states that significantly improved the structures of their market economy.
- These successes are pitted against seven states with a sharply lower level of democracy, and six states where economic development declined strongly. The reasons for this lie in the renunciation of democratic reform goals as conceived in the BTI (for example, in Thailand and Venezuela) or in mismanagement that weakened economic performance.

The BTI Management Index for 2008 attests to generally successful transformation management toward democracy and a market economy during the past two years in 46 states (39 of which also showed some weaknesses). Transformation thus continues to be advanced—in steps large or small—and will be measurable in future results. It is heartening that none of the seven regions studied in the BTI is excluded entirely from good transformation management.

An encouraging finding of the BTI—that good political management is a viable option even under difficult political, social and economic conditions—suggests that the question of how to deliberately promote good governance through development cooperation will be a central theme in the decade to come.

Global Trends 2005–2007

In the face of growing challenges, the primary issue at stake in transformation between 2005 and 2007 turned out to be the preservation of previously achieved successes. Although no spectacular gains materialized, democracy and market economy nonetheless sustained their appeal as models for social change, and they held their ground against numerous challenges, including the growing popularity of authoritarian modernization. In a shifting international environment, the coming years will also require that the institutional and structural prerequisites of democracy and a market economy be strengthened with more foresight and much patience.

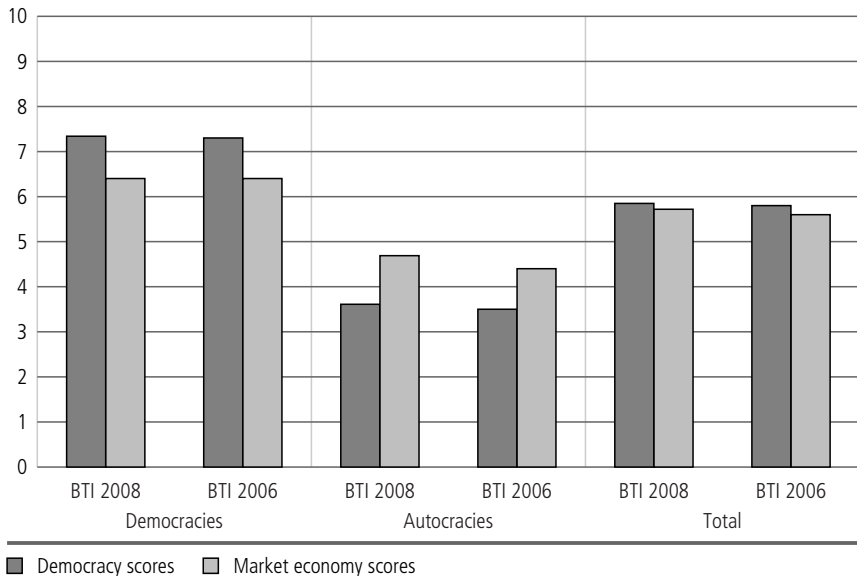
National and international actors continue to face considerable challenges. Based on the mathematical average of all the countries represented in the BTI, the “average citizen” lives in a political regime like that of Guatemala and a market economy like that of Vietnam, while its political leadership pursues transformation management like that of the Philippines or China. Even so, positive examples of transformation such as Chile and Ghana are a sign that with willingness to reform and good governance, sustainable political and economic development can be set in motion. The BTI also shows that this is feasible in every region and every culture.

The Bertelsmann Transformation Index Top Ten			
2008		2006	
Status Index	Management Index	Status Index	Management Index
Czech Republic	Chile	Slovenia	Mauritius
Slovenia	Estonia	Estonia	Chile
Estonia	Botswana	Czech Republic	Botswana
Taiwan	Mauritius	Taiwan	Slovenia
Hungary	Slovakia	Hungary	Taiwan
Lithuania	South Korea	Slovakia	Slovakia
Slovakia	Taiwan	Lithuania	Estonia
Chile	Uruguay	South Korea	South Korea
Uruguay	Croatia	Poland	Lithuania
South Korea	Latvia, South Africa	Chile	Czech Republic

With the single exception of Poland being replaced by Uruguay, the top ten countries in the BTI 2008 are the same as in the BTI 2006. With Poland falling to 11th place and Latvia in 13th place, two of the eight new EU member states are not represented among the top ten. Changes in the Management Index are somewhat more striking: Slovenia, Lithuania and the Czech Republic have dropped out of the top ten and now rank 12th, 15th and 20th, respectively. The newcomers are Uruguay, Croatia and—sharing 10th place—South Africa and Latvia. Estonia, the management winner in the BTI 2003, nearly won back its position from the top performer, Chile.

The global averages in the BTI 2008 do not show any major changes in the status quo of democracy and market economy compared to the BTI 2006 (see Figure 1). However, there have been instances of serious changes in the details. The following analysis presents an interpretation of the data for the BTI 2008 that foregrounds the clusters of characteristic tendencies. It focuses mainly on three phenomena: the appeal of authoritarian modernization, the inadequate sustainability of economic

Figure 1: Mean scores for political and economic transformation



All data = BTI score

The columns represent averages for the Status Index in both the status of democratic transformation and the status of economic transformation. Individual columns represent average BTI 2008 values for the 75 democracies, 50 autocracies and all 125 countries, and average BTI 2006 values for the 71 democracies, 48 autocracies and all 119 countries.

development, and the insidious and alarming erosion of the state's monopoly on the use of force in the "gray area" between democracy and autocracy.

Political transformation 2005–2007

One characteristic of the period from 2005 to 2007 is a total of five regime changes from autocracy to democracy. Besides Mauritania, which is new to the BTI, Kyrgyzstan, Burundi, Liberia and Haiti can now be classified as democracies. Their signature feature, though, is that every one of them is categorized as a highly defective democracy—that is, their democratic quality is very low. Worldwide, about 2.55 billion people are ruled autocratically, while about 3.92 billion people live in democracies (0.87 billion of them in the industrialized countries of the OECD).

The proportion of democracies and autocracies has remained constant since the BTI 2006. In total, 75 of the 125 states now included in the study can be described as democratic, or 60 percent (BTI 2006: 59.7 percent; BTI 2003: 61.2 percent). Two democracies, Montenegro and Mauritania, were included in the sample for the first time, as were four autocracies, Kuwait, Bhutan, Oman and the Republic of Congo. Afghanistan has been demoted to the autocracy camp due to its increasingly weak stateness, as was Thailand after the military putsch against Prime Minister Thaksin.

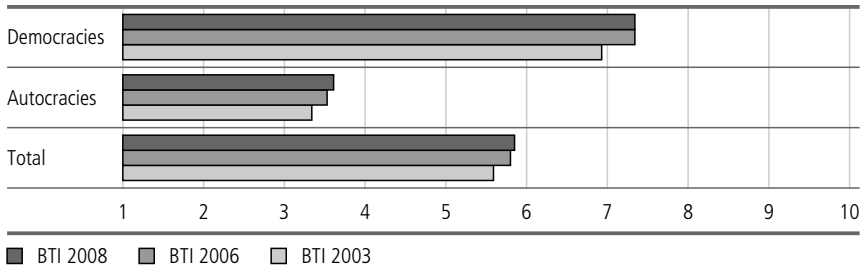
The number of autocracies has increased from 48 to 50 due to the aforementioned regime changes and the inclusion of new states; their proportion has dropped from 40.3 to 40 percent. They include not only such "classic" autocracies as China and Cuba but also countries like the Democratic Republic of Congo and the Central African Republic, where—although elections have been held—democratic conditions cannot be certified due to the almost complete erosion of the state's monopoly on the use of force.

With Iraq and Afghanistan, the autocracies also include the two countries that continue to be hotspots of both international politics and transformation policy. Like other recent examples (DR Congo, Haiti), they show that externally compelled democratization is always in danger of failing if the necessary structural preconditions are not respected. At the same time, improvements can be seen in both cases—despite their still precarious stability overall—that actually look impressive statistically, compared to other countries (Afghanistan: 2.97 to 3.57; Iraq: 2.68 to 3.30).

These gains are due to improved performances in the separation of powers and the judiciary. They show that democracy definitely still has a chance in both countries—presuming, of course, that the security situation can be pacified once and for all. However, the management performance of these two governments gives little cause for optimism. While Iraq's must be regarded as virtually ineffectual, Afghanistan's has declined significantly during the period under review.

Comparing the average scores of the BTI 2008 with those of the BTI 2006 and BTI 2003 demonstrates that progress toward democracy has indeed been weak. Although there was minor to major progress in numerous countries besides those that under-

Figure 2: Development of political transformation



All data = BTI score

The bars represent the mean average of the scores for political transformation in the BTI 2008, BTI 2006 and BTI 2003. The BTI 2003 scores are rescaled for better comparability with the scores from the BTI 2006 onward.

went regime change, this was outweighed by backsliding in others. In the aggregate, the data shows few changes, and this goes for both the sub-indicators and the comparison of democracies and autocracies. Compared over time, the democracies' average in the BTI 2008 is exactly the same as in the BTI 2006, while the autocracies have made slight gains (see Figure 2). Although this small difference is not very significant, one can at least conclude that on average, the autocracies have not become more hardline.

The 75 democracies in the BTI thus range between stability and stagnation, depending on their quality. At any rate, after three decades there are clear signs that by now, at the latest—with externally steered transitions having yielded no real successes—the so-called third wave of democracy has reached its end.

Since the mid-1990s, regime changes from autocracy to democracy have become rather rare. On the tide of global competition, the governments of some countries—first and foremost, China—have committed to a course of authoritarian modernization and reveal themselves as relatively resistant to political opening. Other states such as Russia and Venezuela are experiencing a rollback of democratization for a variety of reasons. In recent years, externally supported or even forced “democratization” has become a striking phenomenon, to put it mildly. It has been difficult or even impossible to stabilize the affected countries—which include Afghanistan, Iraq, Haiti and the Democratic Republic of Congo—and they rank far behind moderate autocracies such as Singapore and Malaysia in their degree of freedom.

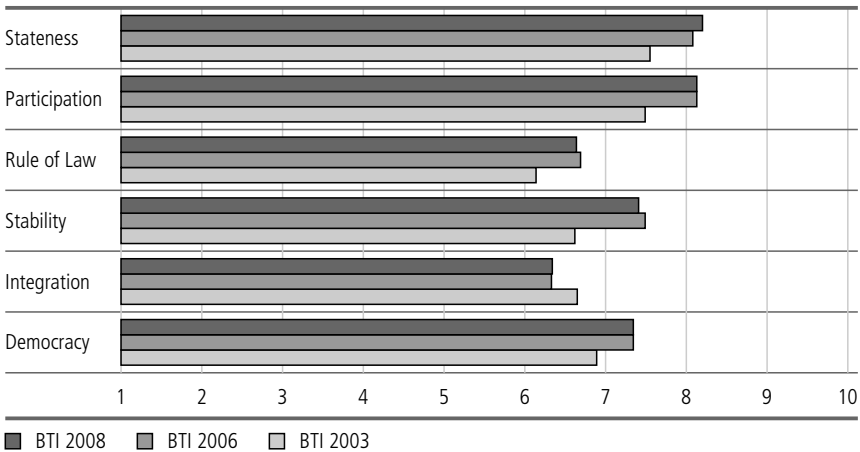
The above-mentioned average BTI citizen would have fewer political liberties in Malaysia but reasonable civil liberties (status of political transformation 5.33 in Malaysia versus 5.85 in the BTI overall), substantial opportunities in reaching a certain level of prosperity (status of economic transformation 7.39 versus 5.72), and the certainty of better governance than in 76 other BTI countries (management score of 5.52 versus 4.94).

The BTI data also confirm that the “third wave” is experiencing peculiar stagnation, if not regression, in another respect. While a group of about 20 countries have made great progress toward consolidated democracy, the other approximately 50 young democracies in Latin America, Asia, Africa and (albeit to a much lesser extent) Eastern Europe are still more or less far from becoming a functioning democracy. Apart from precarious stateness in many of these countries, the main shortcoming of these defective democracies (or of these regimes’ democratic quality) is that they are insufficiently restrained by the rule of law.

This phenomenon of defective democracies—that is, political regimes lacking adequate enforcement of political and civil liberties—has turned into a permanent one. Though they definitely attain relative stability over the years, they remain latently vulnerable to political crises. These can balloon into major systemic crises, as Latin American countries, in particular, have proven in recent years (Argentina, Bolivia, Ecuador, Venezuela).

These defective democracies’ functional weak points lie equally in the erosion of the state’s monopoly on the use of force and in the precarious establishment and enforcement of the rule of law (Figure 3). This leads to numerous citizens not having elementary legal guarantees, for one thing. For another, institutional controls on rulers—over and above political controls through elections—are often disregarded in these countries to the point of allowing arbitrary rule. Orderly legislative procedures

Figure 3: Performance profile, democracies



All data = BTI score

The bars represent the mean average scores for each of the five criteria to assess political transformation in the BTI 2008, BTI 2006 and BTI 2003 for all 75 democracies (or 71 in the earlier studies), along with the aggregated democracy scores.

that respect a democratic decision-making process are present only in rudimentary form.

Only 13 of the 75 democracies have a viable separation of powers. In some countries—most notably, Venezuela and Russia—the executive branch’s monopolization of power amounts to a withering of democracy. These defects result not only from divergent legal traditions but also from the arrogation of power, unfavorable constellations of actors and pressing dilemmas that typify defective democracies (Thiery 2007b).

The democracies earn their lowest score for the criterion of “political and social integration,” one of the two consolidation criteria. It shows that the sociopolitical fundament of most of the democracies is quite weak. Although the establishment of democratic norms (“acceptance of democracy as a form of government”) seems stable enough and appears to represent a solid bastion against authoritarian aspirations, the intermediary structures between state and society are rather precarious, and established pressure groups or clientelistic networks dominate a distorted decision-making process. The scores accordingly show that party systems (6.11), functional representation (6.01) and civil society (5.95) are functioning inadequately. The only lower score is for corruption (“punishment of abuse of office”: 5.63).

The problem of stateness has drawn a good deal of political, public and scholarly attention in recent years. However, the policies of donor countries and the international community are still ill prepared to deal with it organizationally (Schneckener 2007). Instead of taking a comprehensively proactive approach, they react only when a state has eroded beyond the point of no return. Trends can be identified in the BTI that underlie stateness worldwide. The latest findings again sketch a highly ambivalent picture. While the average score for the state monopoly on the use of force has risen noticeably for all countries surveyed (from 7.27 to 7.53), the democracies achieved smaller gains here.

Among all regimes, 36 countries (28.8 percent) scored low on securing the state’s monopoly on the use of force; 17 of these are democracies (see Table 1). Seventeen states, including 10 democracies, face a lesser threat from this so far, but they too remain candidates for further erosion of the monopoly on the use of force, as was shown especially clearly in three countries (Bolivia, Peru, Algeria). In 14 countries, the monopoly on the use of force is so severely curtailed that they must be regarded as latent or even acute trouble spots—not to mention the seven failed states.

Except in Thailand, basic state administrative structures are also deficient in these countries (mean score 4.51). Conditions are thus unfavorable not only for implementing democratic rights or the state’s complementary role within a social market economy but also for carrying out reform policies. Accordingly, on average only very mediocre transformation management can be certified for these countries’ governments. This is reflected especially clearly in the effective use of resources, as one would expect (with a miserable average score of 3.11 for fighting corruption). This also corroborates the highly significant correlation between the quality of administrative structures and the effective use of resources, which holds for all the BTI coun-

tries. However, the correlation with the status of economic transformation is even stronger.

Table 1: Curtailment of the state’s monopoly on the use of force

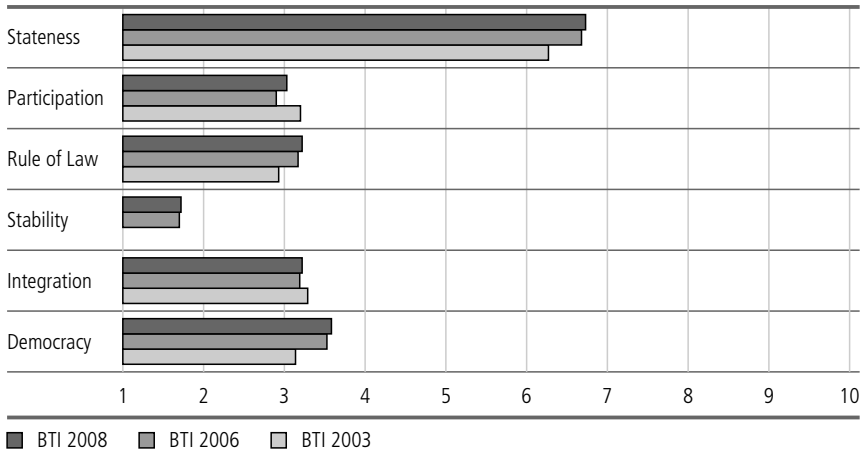
curtailed (6)	strongly curtailed (5–3)	nonexistent (2–1)
Algeria ▼	Chad ▼	Afghanistan
Angola	Colombia*	Central African Republic
Azerbaijan	DR Congo	Côte d’Ivoire
Bolivia* ▼	Haiti*	Iraq
Burundi*	Kenya*	Somalia
Georgia*	Lebanon*	
Guatemala*	Mali* ▼	
Honduras*	Myanmar	
Moldova*	Nepal ▼	
Niger*	Nigeria*	
Papua New Guinea* ▼	Pakistan	
Peru*	Sri Lanka* ▼	
Philippines*	Sudan	
Republic of Congo	Yemen	
Tajikistan		
Thailand		
Zimbabwe		
N = 17 (10 democracies)	N = 14 (7 democracies)	N = 5

The numbers in the first line indicate the scores for the state’s monopoly on the use of force in each of the three groups.
 * = Democracy; arrows indicate a drop in rating since the BTI 2006.

The autocracies’ profile has changed just as little since 2003. Their slight gain in the political transformation score is due partly to participation (elections) in the failed states but primarily to improvements in stateness, which are especially evident in securing the state’s monopoly on the use of force (+0.37). If one excludes the failed states that the BTI categorizes as autocracies, the authoritarian states’ average score here is 7.58 (democracies: 7.88), though with further restrictions on political participation rights. This indicates that especially the autocracies with relatively successful economic performance (such as China and Cuba) are becoming more consolidated, at least for now.

As the Trend Indicator—measured by the difference between the BTI 2008 and BTI 2006—shows for the democracies (see Table 2), a positive dynamic is noticeable

Figure 4: Performance profile, autocracies



All data = BTI score

The bars represent the mean average scores for each of the five criteria to assess political transformation in the BTI 2008, BTI 2006 and BTI 2003 for all 50, 48 and 45 autocracies, respectively, along with the aggregated democracy scores. Autocracies received a score of 0 in the BTI 2003 for the “institutional stability” criterion.

in some countries despite the limited progress overall. Besides the four countries that switched from autocracy to democracy, these are Moldova, Uganda, Georgia, Lebanon and Kenya, where guarantees were strengthened for participation rights, in particular. Noticeable progress (>0.3) was also made in Namibia, Tanzania, Latvia, Romania, Malawi and Serbia. However, backlash occurred, too; besides Thailand, it was especially pronounced in Venezuela, Bangladesh, the Philippines and Senegal, and less so in Bolivia, Russia, Poland and Mozambique.

Status improvements short of regime change definitely occurred in some of the 50 authoritarian states, too. Among these are the four weak or failed states—DR Congo, Central African Republic, Afghanistan and Iraq—that held elections in recent years, as well as Angola. The United Arab Emirates also experienced a slight upward trend. Conversely, obvious deterioration from an already low level occurred in three autocracies besides Thailand, and to a lesser extent in Syria.

Comparison of the regions in transition confirms that East-Central and Southeast Europe is by far the most democratic region. It is followed by Latin America, where all the democracies are defective, with four exceptions (Uruguay, Costa Rica, Chile, Jamaica). However, since Haiti’s relative stabilization and elections, the region has only one autocracy, Cuba. The Middle East and North Africa region—with just two democratic states, Turkey and Lebanon—remains largely untouched by democratic progress.

Table 2: Development trends in political transformation

Democracies				Autocracies			
Improvement		Deterioration		Improvement		Deterioration	
Burundi*	2.17	Senegal	-0.65	DR Congo	1.12	Thailand*	-1.75
Liberia*	2.07	Philippines	-0.65	Central African Republic	0.96	Eritrea	-0.72
Kyrgyzstan*	1.87	Bangladesh	-0.60	Iraq	0.62	Chad	-0.70
Moldova**	1.45	Venezuela	-0.55	Afghanistan*	0.6	Rwanda	-0.56
Haiti*	1.05			Angola	0.59		
Uganda	0.95						
Georgia	0.75						
Lebanon	0.65						
Kenya	0.55						

The figures indicate the differences in Status Index democracy scores from the BTI 2006 to the BTI 2008.

* Change from autocracy to democracy or vice versa.

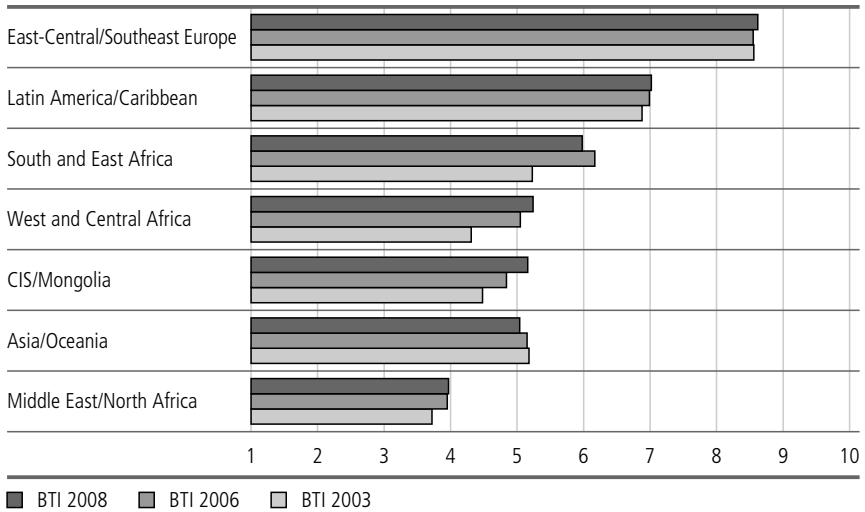
** Moldova was reclassified as a result of the Transnistria issue.

Besides those that are stable or stagnating, two regions have had a noticeably positive development dynamic since the BTI 2003. Electoral democracy, at least, has increasingly prevailed in West and Central Africa, where only seven of 18 states are still autocracies (including DR Congo as a failed state with elections). However, only Ghana and Benin have attained a satisfactory democracy status, while even Mali and Senegal exhibit significant difficulties in the rule of law and the state's monopoly on the use of force. The region has major problems with political and social integration, which are closely related to the problems of poverty. This raises doubts about whether the uptrend will continue.

In addition, the CIS and Mongolia region shows a slight positive dynamic toward political transformation. This is basically attributable to developments in just a few countries, however, such as the various "revolutions" between 2003 and 2005 and the improvements since then in Georgia, Kyrgyzstan and Moldova. These mask the fact that the trend toward autocracy has simultaneously strengthened in the region. This goes for both the consolidation of the Central Asian regimes and the further decline of democracy in Russia. The region overall thus lacks a stable democracy trend and remains at a mediocre level of democracy, with its stateness scores being its best by far.

Since the BTI 2003, both of these regions have surpassed Asia and Oceania in the status of democracy. The military putsch in Thailand has further expanded the autocracy camp (13 of 21 countries), and together with the Philippines (less political liberty and institutional stability), it has also slightly depressed the level of democracy. Asia exhibits the entire spectrum from nearly consolidated democracies (South Korea, Taiwan) and defective democracies (Philippines) to moderate autocracies (Singapore) and

Figure 5: Political transformation in regional comparison



All data = BTI score

The bars represent the regional mean average scores for political transformation in the BTI 2003, BTI 2006 and BTI 2008. The BTI 2003 scores are rescaled for better comparability with the scores from the BTI 2006 onward. Due to the score for Mauritius, the average score for South and East Africa in 2006 is distorted upward by about 0.2 points compared to the BTI 2003. Correction of the democracy scores and real improvements in Moldova are responsible for 0.11 of the 0.32-point gain in the CIS/Mongolia region.

hardline autocracies (North Korea). While the young democracies of South and Southeast Asia have become more vulnerable to crises, the autocracies show virtually no trend toward liberalization. Securing the state's monopoly on the use of force is less of a problem, except in the weak states of Afghanistan, Nepal, Sri Lanka and Myanmar.

East-Central and Southeast Europe has managed to maintain its level of democracy, as has Latin America. While this has meant further consolidation of the democratization trend in the European case (except for Bosnia-Herzegovina), in Latin America the phenomena of stability, stagnation and regression are more obviously mixed. Beyond the four relatively stable democracies, clear regression is evident (particularly in the Andean countries), the crux of which is the increasing instability of democratic institutions. Erosion of the state's monopoly on the use of force has worsened in recent years. The main culprits here are the expansion of drug production and trafficking, plus the organized crime and corruption associated with this.

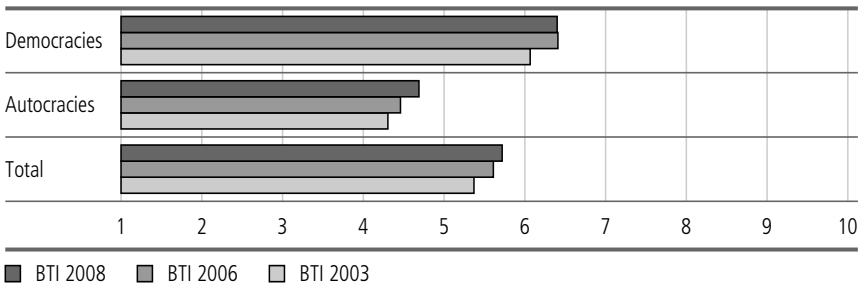
Stagnant political transformation in the Middle East and North Africa—evident in both regional comparison and comparison to the BTI 2006 and BTI 2003—is an expression of largely unchanged autocratic patterns of governance and the absence of lasting political reforms. The few steps taken toward liberalization remain excep-

tional (parliamentary elections in Lebanon, women’s suffrage in Kuwait, temporary opening in Egypt). Reforms generally serve as an instrument to prop up the regime—to deliberately channel political reform pressure and perpetuate the foundations of autocratic rule. Every single important secular opposition movement has been largely shut down with a variety of strategies ranging from containment and inclusion to harsh repression. However, religious (that is, Islamist) anti-regime movements have continued to gain importance.

Economic transformation 2005–2007

Economic development from 2005 to 2007 was strongly influenced by the dynamism of China, India and other emerging markets. Numerous countries profited from the growing demand for raw materials, but they differed greatly in how they used this advantage to develop their market economy. In some of these states, there is scarcely any perceptible tendency to use the boom to strengthen the institutions providing sociopolitical safeguards in a market economy. Transformation toward a market economy—which comprises institutional and structural factors, along with cyclical ones—has remained at a middling level, on average, with a very slight uptrend (Figure 6). While democracies still have better-developed market economies than autocracies, their development has stagnated during the past two years. The autocracies account for all of the slight growth that has occurred.

Figure 6: Economic transformation in democracies and autocracies

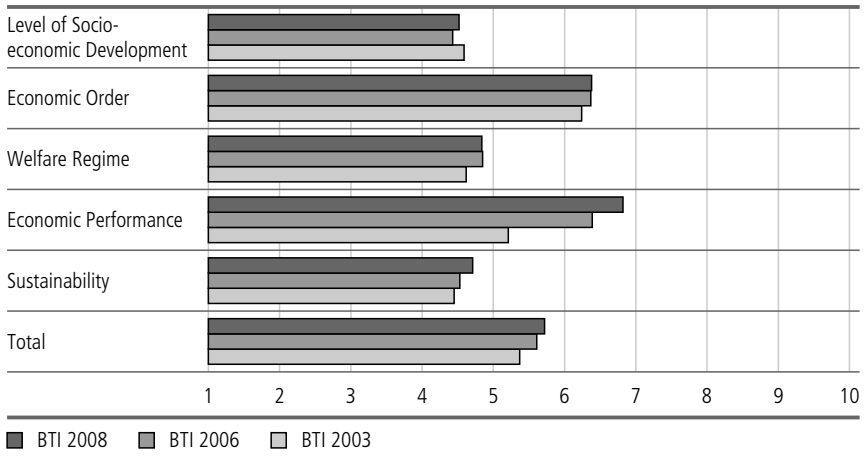


All data = BTI score

The bars represent the mean average scores for economic transformation. BTI 2003 scores have been rescaled for better comparability with the scores from the BTI 2006 onward.

The profile of market economies based on the individual criteria (see Figure 7) shows three main findings. First, in the past years practically no progress has been achieved, on average, in the level of socioeconomic development, the economic order, the welfare regime and sustainability; the hint of an uptrend in sustainability (average score

Figure 7: Status of economic development, individual criteria



All data = BTI score

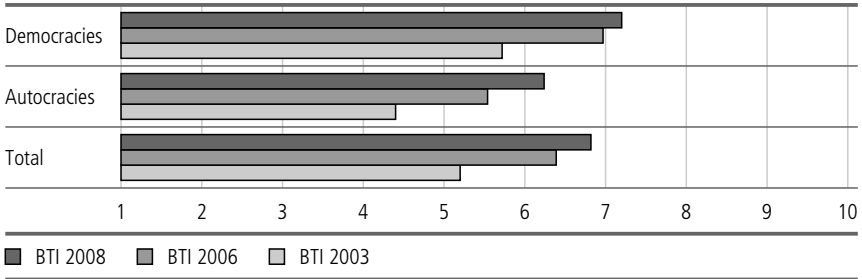
The bars represent the global mean average scores for each of the criteria to assess economic transformation. There are three criteria used to assess a state’s economic order. The BTI 2003 scores have been rescaled for better comparability with the scores from the BTI 2006 onward.

in the BTI 2006: 4.53; BTI 2008: 4.71) is not very significant. Second, among these four elements, the organization of the market and competition is the strongest. But its development has become bogged down despite its central role in economic success. Third, the uptrend since 2004 is due almost entirely to the role of performance, which is basically driven by trends in the global economy.

These findings give rise to suspicion that success in economic performance creates a temptation to neglect the development of economic institutions and thus miss the chance to set a course for more solid development even during cyclical downturns. These tendencies are noticeable in Africa and to some degree also in Latin America, where the governments seem to value their newfound freedom of action, having perceived the recommendations of Western donors and financial institutions as diktats. Not without reason, the weak points worldwide are solid mechanisms for social equity and for the environmental and educational sustainability of economic systems. The status of socioeconomic development—which naturally trails behind the market economy criteria that governance can influence—reflects the structural dimension of this stagnation.

While the democracies’ performance continues to outstrip that of autocracies, the latter have managed to partially close the gap during the past two years. The correlation between democracy status and performance is accordingly rather weak. The democracies’ strength lies rather in their development and expansion of economic institutions, as shown by the strong correlation between democracy status and the

Figure 8: Performance trends for democracies and autocracies



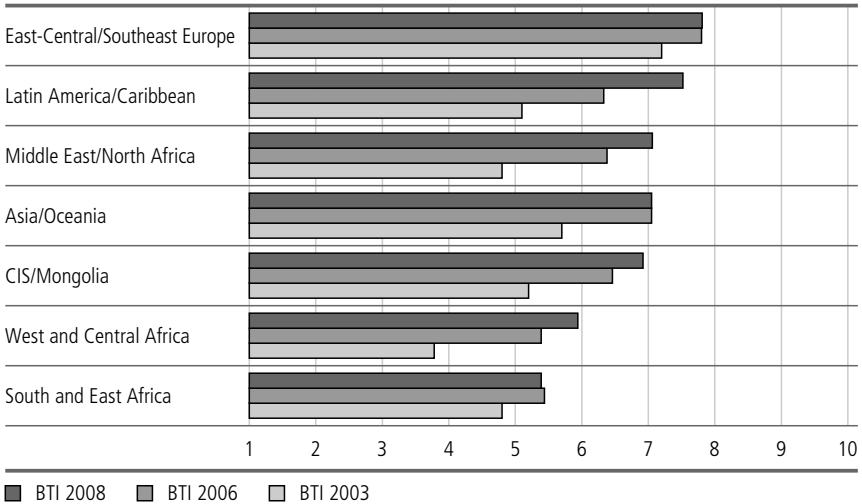
All data = BTI score

The bars represent the global mean average scores for economic performance (criterion 11).

organization of the market and competition, which is also reflected in the overall market economy status. Here, democracies appear better prepared than autocracies for longer-term economic development.

Three Asian states (China, India, Singapore) and two of the new EU members (Estonia, Czech Republic) lead the performance rankings. By contrast, African coun-

Figure 9: Regional macroeconomic performance profile



All data = BTI score

The bars represent the regional mean average scores for economic performance. The BTI 2003 scores are rescaled for better comparability with the scores from the BTI 2006 onward.

tries and North Korea were least able to profit from the favorable global economic climate (Burundi, Côte d'Ivoire, Malawi, Togo, Eritrea, Somalia and Zimbabwe). This is also expressed in the regional performance profiles. While every region made clear gains during the period under review for the BTI 2006, the BTI 2008 shows a more differentiated picture.

While performance has continued to improve in four regions, no further gains are perceptible in the other three regions. Particularly in South and East Africa, parts of the region are cut off from the global trend. The same goes for Asia, where North and East Asia shape the image of a booming continent, while large parts of South and Southeast Asia have not been swept up in this dynamic. Latin America has profited the most in recent years from global economic growth. At the start of the century, it was still suffering the effects of the various crises of the late 1990s, but by now it has managed to overcome this and is participating successfully in the raw materials boom, in particular. Cuba has relatively successfully exploited its international advantages to stabilize its economic system, which remains under state control.

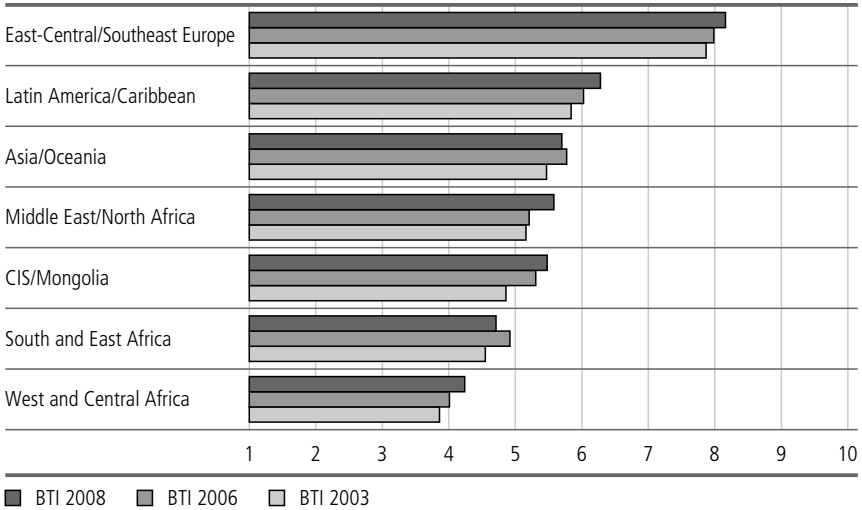
If one looks at the overall status of transformation toward a market economy, the performance scores conceal the inability of most regions to achieve any appreciable progress in the other market economy dimensions. A slight countertrend is noticeable only in the Middle East and North Africa and in East-Central and Southeast Europe. Once again, the only region that can be described as having a relatively developed market economy is East-Central and Southeast Europe; here, Bulgaria, Macedonia and Albania are clearly catching up.

On average, the other regions do not have solid market economies. This would be even more evident if one excluded the few successful economies outside of Europe: Singapore, South Korea, Taiwan and Chile. These are the only non-Europeans among the top 15 in the market economy index (with an overall score greater than 8). Among all the BTI countries, only the top 15—which also includes ten EU members and Croatia—have a largely developed market economy.

In recent years, questions of sustainability have drawn intense attention in international public opinion and in political and academic discourse. This includes not just the environmental compatibility of economic activity but also securing investments in education and in research and development. Together with the socioeconomic level of development (which is influenced by both the status of development and aspects of the distribution of opportunity), the factor of sustainability is especially weak in the economies' performance profiles. Apart from a few exceptions, this dims development prospects for most countries as well as for the whole world.

Although minor improvements over time can be identified, the overall level of sustainability is still low. Autocratically governed countries have performed especially poorly in this area. A comparison of sustainability profiles shows that autocracies attach no importance to their economies being environmentally compatible, while they are better positioned in education and research and have made notable gains here since the BTI 2006. Singapore, in particular, has a well-developed education sector and research institutions, and China and Cuba increasingly do, too. The democ-

Figure 10: Economic transformation, regional comparison



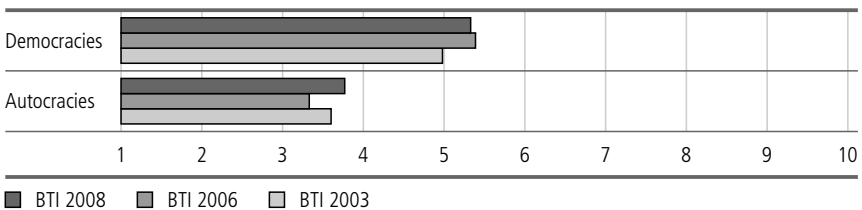
All data = BTI score

The bars represent the mean averages of the scores for economic transformation in the BTI 2008, BTI 2006 and BTI 2003. The BTI 2003 scores are rescaled for better comparability with the scores from the BTI 2006 onward.

racies' profile is the converse. That is, they are stronger on environmental issues than in research and education. However, they were unable to achieve any improvements in either area.

Comparing the regions shows that nearly all of them are contributing to problems of environmental sustainability. Only East-Central and Southeast Europe has reached

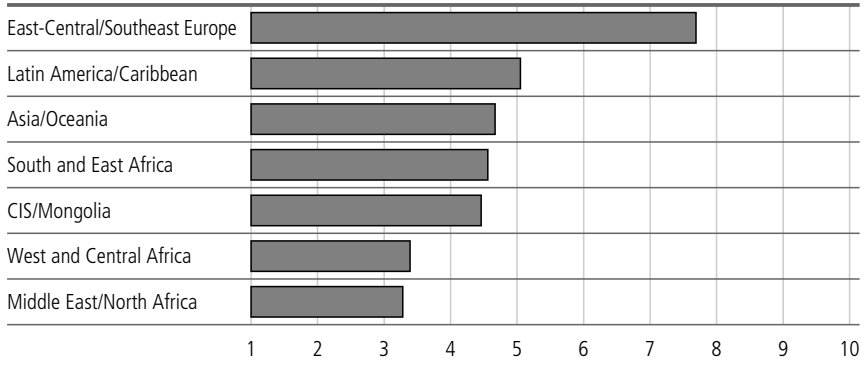
Figure 11: Sustainability in democracies and autocracies



All data = BTI score

The bars represent the regional mean average scores for sustainability in the BTI 2003, BTI 2006 and BTI 2008. This criterion is composed of questions assessing the "environment" and "education/research."

Figure 12: Environmental sustainability by region



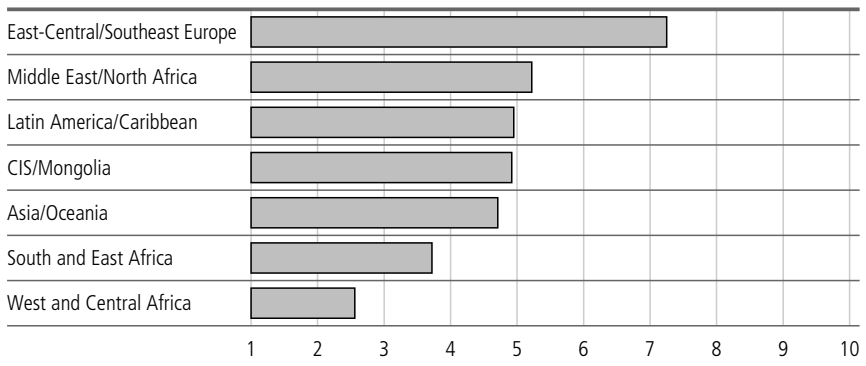
All data = BTI score

The bars represent the regional mean average scores for environmental sustainability in the BTI 2008.

a point where its economies are reasonably sustainable. The situation is especially problematic in Asia, where the world's two most populous countries, China and India, have not established adequate environmental standards and are contributing massively to the exploitation of natural resources and environmental destruction. If not for the Tiger states that are more active in environmental policy—Singapore, South Korea and Taiwan—Asia would drop to the third-worst ranking among the regions.

The regional distribution of education and research capacities looks different. Unsurprisingly, the two African regions continue to bring up the rear for invest-

Figure 13: Education and research by region



All data = BTI score

The bars represent the regional mean average scores for education/research in the BTI 2008.

ments in human resources. Even those countries whose education sectors were supposed to profit from debt relief in 2005 have not improved, with the exception of Uganda and Zambia. While East-Central and Southeast Europe is by far the region with the greatest promise for the future, the relatively strong position of the Middle East and North Africa stands out, too.

Overall—and not surprisingly—the degree of sustainability correlates very strongly with the socioeconomic level of development. This means that particularly in education and research, entire groups of countries are in danger of being left behind by more dynamic economic development because they are stuck at a low-level equilibrium. So far, pursuing the Millennium Development Goals has evidently failed to deliver precisely the poor countries from this dilemma.

Managing transformation, 2005–2007

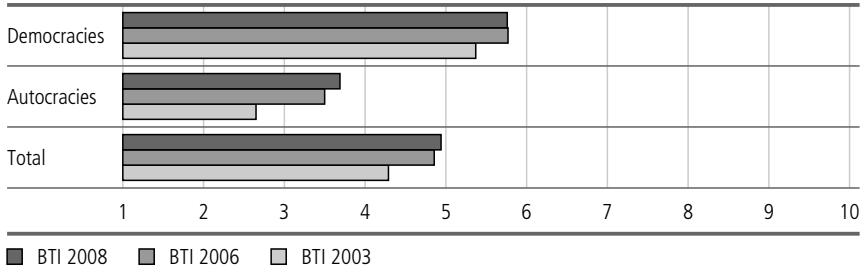
As the key factor in political and market reforms, political management decisively influenced transformation processes from 2005 to 2007 in both positive and negative ways. From a global perspective, though, it must be noted that transformation management has not dramatically improved, on average, and has leveled off at a middle level.

Countries from every region are among the 25 best management performers—but also among the 20 worst, with the exception of East-Central and Southeast Europe. The cases of good management performance are thus balanced out by the major failures. The performance gap between democracies and autocracies also carries over to the management of transformation. While the democracies achieve an average management score equivalent to Peru's (rank 40), the autocracies achieve only an average score like Togo's (rank 104).¹²

In contrast to the BTI 2006, in which average scores rose significantly from the BTI 2003 due to both actual management improvements and methodological changes, the BTI 2008 indicates that neither democracies nor autocracies have improved management performance. Moreover, it is noteworthy that the democracies' score has declined for "consensus on the goals of democracy and market economy." Whereas 31 (of 71) democracies achieved the highest scores (9 or 10) on this in the BTI 2006, only 25 (of 75) did so in the BTI 2008. This may indicate that the unanimous consensus on these goals is crumbling among the political elite, as can be observed in Latin America, for example. In general, though, the findings of the BTI 2008 confirm the presumption that there is a close connection between management performance and the level of transformation achieved (see Figure 15).

12 However, the fact that democracies achieve a higher average score for transformation management is also related to the particular weighting of the Bertelsmann Transformation Index, which places value on governance that steers transformation toward market economy and democracy.

Figure 14: Mean scores for transformation management

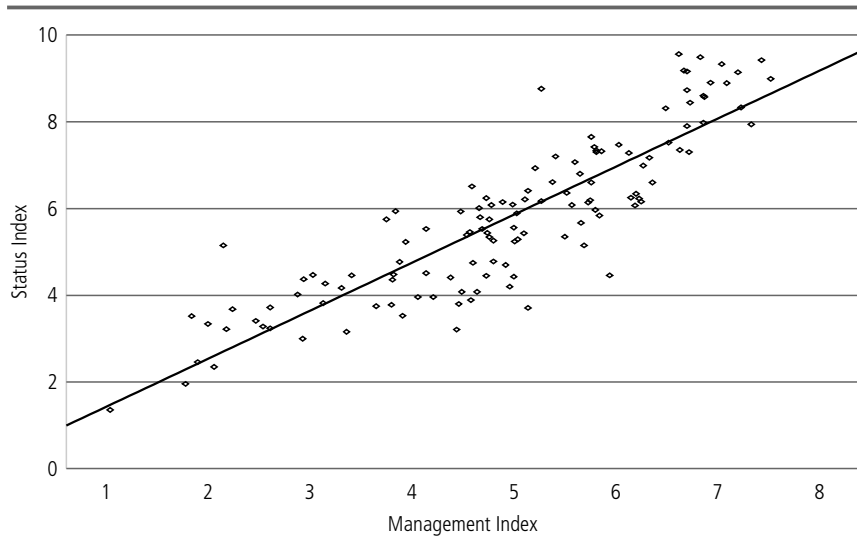


All data = BTI score

The bars represent the mean averages of the scores for transformation management in the BTI 2008, BTI 2006 and BTI 2003 for democracies, autocracies and all countries, respectively. Following redesign of the Management Index, the BTI 2003 scores have been recalculated for better comparability.

Unlike the mean score graphics, Table 3 makes clear that the variation within the sample is tremendous, especially when one considers that the de facto range of the scale is smaller for the Management Index. Among the clear winners are the countries where

Figure 15: Management and transformation status



R^2 linear = 0.768

All data = BTI score

political elites were able to effect or initiate regime change to democracy. But a country like Togo could also improve relatively clearly—though not substantially, in absolute terms—on scores that were catastrophic as of the BTI 2006; it did so by appointing a government of national unity. A motley variety of countries belong to those falling behind, including Venezuela under Hugo Chávez and the Kaczynskis' Poland.

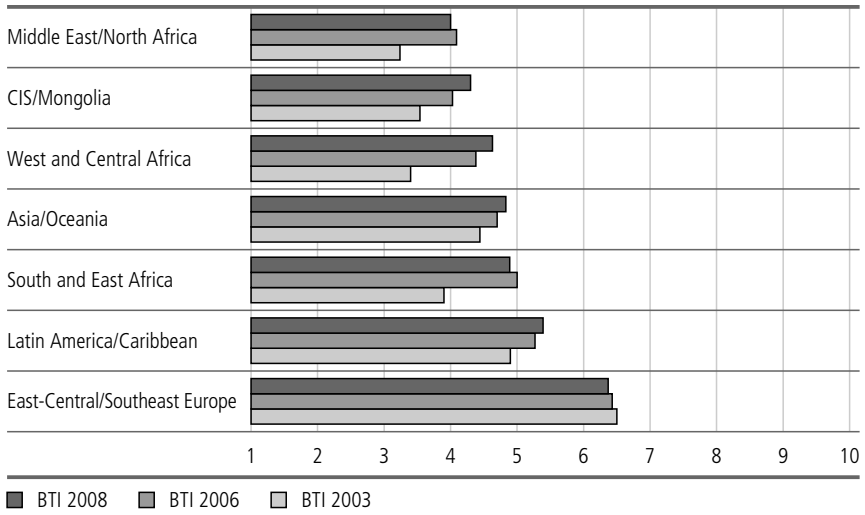
Table 3: Pulling ahead and falling behind in the Management Index

Pulling ahead		Falling behind	
Burundi	2.03	Guinea	-1.23
Haiti	1.65	Poland	-1.09
Togo	1.37	Mozambique	-1.05
Liberia	1.34	Venezuela	-0.88
Macedonia	0.98	Sierra Leone	-0.72
Moldova	0.98	Chad	-0.63
DR Congo	0.89	Bangladesh	-0.59
Nepal	0.85	Slovenia	-0.58
United Arab Emirates	0.84	Senegal	-0.58
Paraguay	0.78	Bolivia	-0.56
Malawi	0.77	Sudan	-0.55
Central African Republic	0.74	Somalia	-0.51
India	0.65		
Kazakhstan	0.56		
Benin	0.52		
Ukraine	0.52		
Kenya	0.5		
Kyrgyzstan	0.5		

The table shows changes of at least 0.5 (plus or minus) between the Management Index scores of the BTI 2006 and the BTI 2008.

The regional mean averages show that these changes are also distributed somewhat unevenly among the regions. CIS and Mongolia and West and Central Africa managed to book slight gains, which however are clustered in just a few countries and moreover do not result in good governance overall. By contrast, transformation management is stagnating in the Middle East and North Africa, as well as in South and East Africa. Especially for the Middle East and North Africa—which trails the other regions anyway—this means there is currently little hope for real transformation toward democracy and market economy, except in Turkey and Lebanon.

Figure 16: Transformation management, regional comparison



All data = BTI score

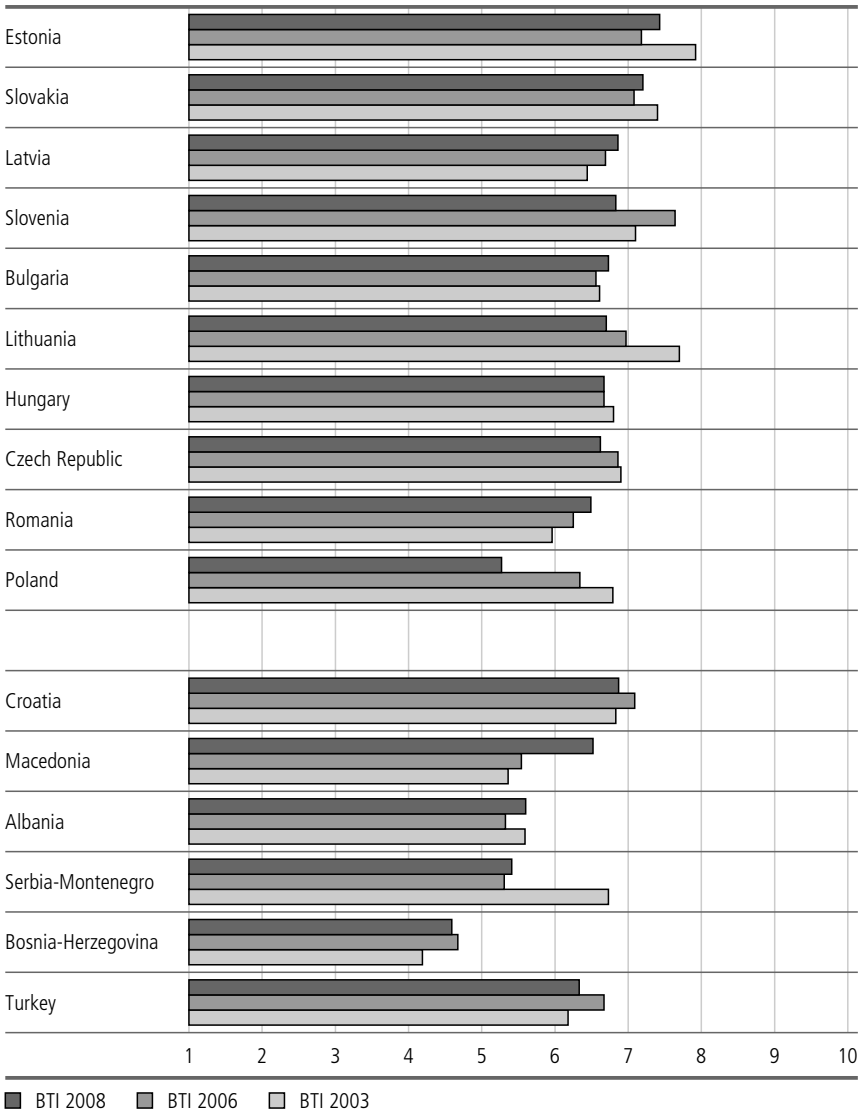
The bars represent the regional mean average scores for transformation management (weighted Management Index).

East-Central and Southeast Europe, where average scores have declined slightly over time, continues to represent a special case. As the BTI 2006 already determined, this decline is not necessarily a result of sagging management performance. Rather, it reflects the fact that the BTI transformation goals have already been largely achieved in the EU countries. The management performance of political elites can thus only partly relate to genuine transformation policy as the BTI seeks to measure it. Instead, political management here—and most of all, its evaluation—appears as “good governance” more generally. This implicitly makes the ratings more critical than in other transformation countries. Even so, East-Central and Southeast Europe remains far and away the most successful region in management.

With this caveat, it is still noteworthy that individual countries’ management performance fluctuates, though usually at a high level. What stands out—apart from the sharp drop in Poland, which now ranks near Sri Lanka and Indonesia—are the efforts of Croatia and Macedonia, as well the region’s biggest worry, Bosnia-Herzegovina. (The table also shows a slowdown for Turkey, which as an additional accession candidate is included in Figure 17.)

In the other regions, there are a variety of management qualities characterized in the overview of findings—ranging from successful to failed and nonexistent. Regional scores conceal widely varying patterns of governance and modernization at the country level, which are expressed in divergent management strategies. For exam-

Figure 17: Transformation management in East-Central and Southeast Europe and in Turkey



All data = BTI score

The bars indicate the countries' scores for transformation management (weighted Management Index) in the BTI 2008, BTI 2006 and BTI 2003.

ple, Asia is mainly shaped by a dualism between advanced democratic modernizers and autocratic modernizers that are catching up (not counting the countries that reject transformation, North Korea and Myanmar). The autocracies in Singapore, China, Malaysia and Vietnam have attained different degrees of modernization, but as a group they have been relatively successful in developing and stabilizing their market-based systems.

Management in these countries is thus aimed at “partial modernization,” which the government can steer with a certain degree of success. This definitely makes it an attractive model for countries where democratic and civic traditions are lacking but reform-minded political elites are beginning to prevail. For instance, there is already discussion over whether post-Castro Cuba might take this developmental path and mutate into a Caribbean “Tiger.”

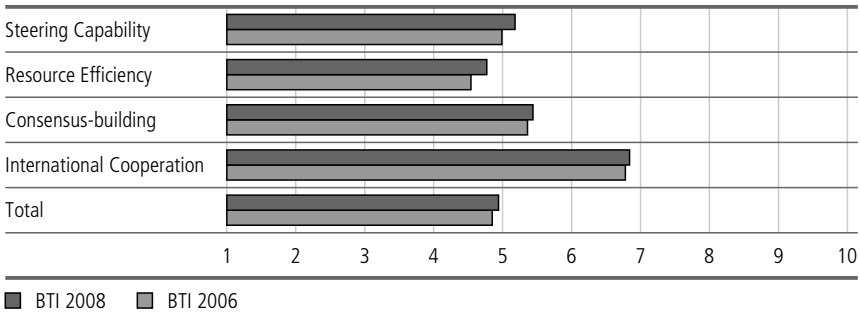
By contrast, the dominant path toward reform in Latin America (excepting Cuba) includes both political and economic transformation. For some time, the challenges of dual transformation have created difficulties for the political elite, as can be seen especially in Argentina since the 1990s. Except for Chile, Uruguay and Costa Rica, this has resulted in a slalom course in most of these countries that only a few governments (primarily Brazil’s) have been able to master with relative success.

In general, political elites have had to contend with enormous difficulties in sustaining this dual transformation, particularly in the past two years (and especially in Bolivia, Peru and Ecuador). This is due partly to governments’ inadequate management capacities, and partly to the increased blockade potential of social pressure groups. In addition, the influence of Venezuela’s President Hugo Chávez has further spread a political countercurrent that openly propagandizes the renunciation of market-oriented economic policy and that represents an additional endurance test for previous transformation successes.

The profile of the management criteria, which indicate necessary elements of a successful reform strategy, shows only tiny changes on average. This also means that the weak points of management have not improved. This primarily applies to the effective use of resources, and especially fighting corruption (which has the lowest average score in the whole BTI). Although both of these scores have risen minimally since the BTI 2006 (by about 0.2), their low absolute level indicates that this is a key management problem in most countries. Despite growing consciousness in politics and society, the lack of progress in fighting corruption remains a nuisance that points directly to failures in governance—or insufficient will to reform.

Linked to this is another core problem of reform strategies aimed simultaneously at democracy and market economy, namely, the potential tradeoff between participation and resource efficiency. As suggested above, the preconditions for good transformation management are strongly limited, especially in poor countries, by a lack of available resources—such as a functioning public administration, in particular—and are hampered by other structural constraints. For instance, in the sample of democracies there is a strong correlation between the level of prosperity (measured by GDP per capita) and the quality of democracy and market economy on the one hand, and

Figure 18: Profile of management criteria



All data = BTI score

The bars represent the global mean average scores for the four management criteria (without the level of difficulty) and for the weighted management results in the BTI 2008 and BTI 2006; for the weighted management results, the de facto range of the scale is from 1 to 8.

management quality on the other, even though relatively good governance is possible in poor countries, too.

From the perspective of external supporters of transformation, there is thus still a meaningful incentive to show that good management in the sense of good governance is worthwhile. In return, though, structural problems must be addressed in a more targeted way, especially in poor countries. These ambitions should only be amplified by the fact that the Western world is increasingly exposed to competition from China that does not hesitate to undermine good governance—with its development strategy in Africa, for instance.

Conclusions

In an ever more turbulent world, democracy and a market economy have remained the most attractive models for social development. The findings of the Bertelsmann Transformation Index 2008 show that although democracy and market economy did not make any rapid progress between 2005 and 2007, the successes of earlier efforts were preserved for the most part. The number of democracies grew once again, while economic transformation has stabilized despite obvious institutional deficits. Due not least to the opportunities offered by a globalized economy, even some countries that have long refused to reform—such as Cuba—have been forced to take at least small steps toward modernization in order to maintain legitimacy with their populace.

However, the shades of gradation have also increased in all three of the BTI's important dimensions—democracy, market economy, and management. Though democ-

racies are a clear majority of the states in transition, relatively few of them are consolidated. The great majority—including especially the new democracies in the BTI sample—are defective democracies, which are partly unstable and permeated by authoritarian elements. Moreover, counter-tendencies can be spotted, especially in personalistic, populist or plebiscitary regimes like those of Venezuela or Russia.

Market economies are also plagued by clear dysfunctions that were concealed by the relatively favorable global economic climate in recent years. In addition, the raw materials boom has increased the temptation for some countries to return to centralized, state-centered economic policies. The fact that this is occurring with broad popular support in some places is, of course, an effect of inadequately implemented market-based reforms in the 1980s and 1990s that failed to benefit all segments of society.

Finally, the shades of gradation have also increased in transformation management, the decisive factor in setting a reform course. Not only has it fallen obviously short of its potential in most countries; the consensus among political elites on democracy and market economy appears to be crumbling in some countries. The solution of “21st-century socialism,” which Hugo Chávez has touted for Venezuela (and other countries), is another signal in this direction despite its blurry contours so far.

On top of this, Chinese-style authoritarian modernization remains attractive. It has already found imitators of a nondemocratic development path (and in the case of Cuba, even a non-market-oriented one). Finally, with regard to demanding and supporting good governance, it must be emphasized that strategies like China’s in Africa threaten to undermine good governance as a model.

In light of these trends and the fact that the previous decade’s progress has not been sustained at the same tempo, pessimism is not necessarily the order of the day—but neither is exaggerated optimism along the lines of Francis Fukuyama’s “the end of history” thesis (Fukuyama 1992). It has become clear that further progress in reform will not sell itself. Instead, even meager partial successes must often be hard fought—both within a society and from the side of external actors. This could result in a dilemma in that preservation of past achievements is surely preferable to fresh backsliding, but this will strike many actors as insufficient and will accordingly provoke counterreactions.

As the example of the problems in education shows especially vividly, in the long view international support is indispensable to transformation toward market-based democracy even in an increasingly difficult climate. Initiatives such as debt relief for the poorest countries and the pursuit of a sustainable Africa strategy must be further developed and reinforced in conjunction with tighter implementation of the United Nations’ Millennium Goals. However, two factors must be heeded even more than in the past: First, good governance must actually be invoked as a condition; and second, external support must aim for sustainable transformation of structures, and not just for purely quantitative goals. With money alone—such as the increase in development aid agreed upon again by the G8—lasting success cannot be achieved.

Appendix 2: Status of economic development, 2007

Developed market economy	Viable or functioning market economy	Market economy with functional flaws	Poorly functioning or rudimentary market economy	
10 to 8	< 8 to 7	< 7 to 5	< 5 to 3	< 3
Czech Republic	Costa Rica ▼	Oman (new)	Guatemala	Afghanistan ▼
Singapore	Uruguay	Sri Lanka ▼	Nepal ▼	Zimbabwe
Estonia	Brasilia	Argentina	Morocco	DR Congo
Slovenia	Mauritius	Armenia	Cambodia	Myanmar
Taiwan	Botswana	Kazakhstan	Papua New Guinea	North Korea
Slovakia	Bahrain	El Salvador	Guinea	Eritrea
Hungary	Malaysia	Tunisia	Tanzania	Somalia
Lithuania	South Africa	Jamaica	Benin	
South Korea	Macedonia ▲	Montenegro (new)	Cameroon	
Poland	Turkey ▲	Colombia	Kenya ▼	
Chile	Mexico ▲	Albania	Venezuela	
Latvia	Panama ▲	Serbia	Mozambique ▼	
Croatia	Thailand	India	Burkina Faso	
Bulgaria ▲	United Arab Emirates ▲	Peru	Sierra Leone	
Romania ▲		Namibia	Mauritania (new)	
		Russia	Laos	
		Ghana	Iran	
		Ukraine	Syria	
		Georgia	Uzbekistan	
		Bosnia and Herzegovina	Malawi	
		Kuwait	Rwanda	
		China	Yemen	
		Jordan	Republic of Congo (new)	
		Lebanon	Turkmenistan	
		Dominican Republic	Niger	
		Philippines	Sudan	
		Saudi-Arabia	Tajikistan	
		Indonesia	Central African Republic ▲	
		Vietnam	Ethiopia	
		Kyrgyzstan	Burundi	
		Uganda	Haiti	
		Honduras	Angola	
		Paraguay	Bhutan (new)	
		Libya	Chad	
		Mongolia	Togo	
		Nicaragua	Côte d'Ivoire	
		Ecuador	Guinea	
		Egypt ▲	Iraq	
		Cuba ▲	Liberia ▲	
		Nigeria ▲		
		Azerbaijan		
		Algeria ▲		
		Pakistan		
		Zambia		
		Bangladesh		
		Bolivia		
		Mali ▲		
		Senegal		
		Belarus ▲		
		Madagascar		
		Moldova ▲		

Note: Countries are classified according to threshold values in the status of economic development: developed market economy: Index score 10 to 8 (BTI 2003: 4.7 to 4.3); viable or functioning market economy: Index score of < 8 to 7 (2003: 4.0 to 3.6); market economy with functional flaws: < 7 to 5 (2003: 3.4 to 2.6); poorly functioning or rudimentary economy: < 5 to 3 (2003: 2.4 to 1.6) and < 3 to 1 (2003: 1.4 to 1.0). The subclassifications within each column follow the composite scores for the status of market economy, in descending order. Triangles indicate movement into a higher or lower category.

Criteria and Methodology

The Bertelsmann Transformation Index examines and assesses whether and how developing and transformation countries manage social change toward democracy and a market economy. The BTI synthesizes the findings of a study of transformation processes and political management in 125 states into two sets of rankings. The first ranking, the Status Index, locates where each state stands in international comparison on the path toward constitutional democracy and market economy flanked by sociopolitical safeguards. The second ranking, the Management Index, assesses the quality of political management in global comparison.

Methodological changes in the BTI 2008

This new edition of the BTI is based largely on the same criteria and measurement methods as the BTI 2006. All key changes since the last edition are itemized below:

- For the first time, we assess all developing and transformation countries with more than two million inhabitants. The number of countries studied has thus expanded by six to 125 states.
- The trends in democratic and economic development are derived by comparing current BTI scores for the status of democratic and economic development with the BTI 2006 scores. These trends were previously determined on the basis of separate questions and expert assessments.
- Transformation management is assessed with 17 instead of 18 questions. The question from the BTI 2006 on developing social capital (16.4) has been integrated into the question on associational activities (5.4).
- Formulations of the individual questions have been slightly revised to improve their discriminatory power and clarity.

The next section explains the BTI 2008's objectives and conceptual framework. The subsequent section describes in detail its measurement methods and construction of the indices and explains their rationale. The final section compares the BTI with other indices.

Study objectives and approach

Why is the BTI organized in the form of a ranking?¹³ Rankings and the composite indicators required to benchmark countries facilitate a focused and transparent cross-national comparison. Such a quantitative-comparative approach can help identify key drivers of development, facilitate learning from other examples and rationalize strategies of external support.

Composite indicators have therefore become increasingly important to development assistance and to the international support of democratic and economic reforms. High performance scores have become a precondition for the disbursement of development aid. Donors allocate their funds according to the quality of governance as reflected in expert assessments, business and opinion polls, and official statistics. Numerical scores indicating a country's structural conditions are also used in econometric research to explain growth and development.

Composite indicators reduce complexity in the interest of providing sharp and clear results to the general public. The indices constructed in the BTI should thus be viewed and interpreted only in the context of its detailed regional reports and country analyses. Their assessments are considerably more differentiated and cannot be replaced by the scores. The indices aggregate a large number of qualitative assessments of criteria and indicators, which can show considerable individual variation.

Only the full country reports allow one to understand the nuances and distinctions behind the qualitative assessments. Likewise, only individual case studies reveal the extent to which possible statistical correlations actually represent causation. While indices highlight the countries' relative strengths and weaknesses, only the country reports clarify precisely where these strengths and weaknesses lie.

The normative points of reference underlying these analyses and indicators are constitutional democracy and a market economy flanked by sociopolitical safeguards. In contrast to less demanding conceptions of democracy, this concept of constitutional democracy includes the rule of law and the separation of legislative, executive and judicial powers with checks and balances (Merkel et al. 2003).

Whereas narrow definitions of a market economy focus primarily on free markets and property rights, the BTI concept of market economy incorporates principles of social justice, the protection of vulnerable groups and the responsibility of individual economic actors to society as a whole—principles which then guide social policy.

However, these conceptualizations must not be misconstrued as an attempt to measure the status of democracy and the market economy strictly against existing examples, such as the German model of a social market economy or the continental European model of a democracy embedded in the civil law tradition. Indeed, the designated basic norms and functions of constitutional democracy and a market econ-

13 The following discussion is based on the BTI Manual, which explains in detail the questions, rating criteria, and construction of the indices. The manual provided the instructions and questionnaire for all of the evaluators and is included on the enclosed CD-ROM.

omy flanked by sociopolitical safeguards can be realized through a variety of functionally equivalent institutions.

Democracy and a market economy are empirically and functionally interlinked. The term “market-based democracy” used in this study expresses this link. Elements of a constitutional democracy are found most often in those countries that also exhibit features of a market economy and social policy. Conversely, economic liberties are often restricted in autocracies. This may be explained by the fact that the liberties that constitute economic citizenship and the participation rights that establish political citizenship give rise to and presuppose each other.

Likewise, the fundamental institutions of a market economy and democracy are interdependent. The societal modernization and stratification resulting from market forces has opened the door to democracy in most countries. Democratic norms of accountability help protect the viability and legitimacy of the economic system from being undermined by distributional conflicts among social and economic actors. Conversely, only production processes organized along market-based principles can provide the ample, stable resource base that modern democracies require.

Although a market economy and democracy interact closely, this does not automatically presage development. Asian countries such as China and Singapore have shown that a country can travel the path toward free-market structures while maintaining an authoritarian regime over a long period of time. Thus, this study’s approach does not presuppose a teleological process in which social change and comprehensive reforms march steadily toward the goal of market-based democracy.

Development processes do not unfold linearly, as early modernization theorists assumed. Nor do they necessarily lead to market-based democracy, as many “transitologists” apparently believed. Stagnation and relapses into authoritarianism are possible, as are detours and asynchronicities in development.

This study therefore rests on a broad understanding of development and transformation. Development entails not only economic growth, but also eradicating poverty and expanding the freedom of opportunity for as much of the population as possible. Development should be participatory and driven by a state’s own efforts (“policy ownership”). The goal is twofold: to permanently overcome initially adverse structural conditions, and to advance toward the model of market-based democracy (Nuscheler 2001).

In this study, transformation refers to comprehensive, politically managed social change from an authoritarian system toward a market-based democracy. Thus, the goal of the transformation process is defined, but not the exact path toward achieving it. To further indicate the open-ended and uncertain character of this process, this study often uses the more general terms “reforms,” “reformers,” and “reform processes.” Since “transformation” particularly connotes the aspect of political management in shaping change, it is often used in the Bertelsmann Transformation Index as the generic term that best reflects the project’s intentions.

The distinction made here between development and transformation takes into account that constitutional democracy and a market economy flanked by sociopolitical safeguards are goals but not necessarily immediate priorities in complex proc-

esses of development. Many states have embarked on dramatic, sometimes revolutionary phases in development or even comprehensive systemic change, while others currently have no intention of pursuing change.

From the perspective of this study's approach, however, the ultimate aims of development and transformation are identical. Although the concept of development encompasses transformation toward democracy, this does not mean that such a transition is necessarily an element of the development process. Nor must development always be preceded or accompanied by an authoritarian phase. Development and transformation are not necessarily sequential; they can overlap both temporally and in terms of the problems to be overcome. This broad understanding of development and transformation is a prerequisite for examining developing and transformation countries in a single study.

The Bertelsmann Transformation Index focuses on the governance performance of political elites precisely because of its central role in shaping the course of development and transformation. Fundamental to this notion of governance is an analytical perspective that defines governance as the actual performance, capacity and accountability of specific political actors (Merkel and Puhle 1999; O'Donnell and Schmitter 1986; Przeworski 1991). This perspective differs from one that interprets good or bad governance as an aspect of a political system and that tends to view governance performance as the outcome of given resources and a given constellation of factors (cf., e.g., Hyden, Court and Mease 2004).

This study takes such causal relationships into account, but it emphasizes the role of political actors as crucial. Relevant actors include the government, political elites and nongovernmental organizations insofar as they play an important role in transformation. These actors demonstrate good transformation management as defined in this study when they demonstrate effective leadership, use their resources efficiently, build a broad pro-reform consensus in society and cooperate with international partners.

These features of good management are based upon a market-based democracy as the normative point of reference. They also reflect experiences with good governance and with the successful political guidance of development and transformation processes. It is certainly possible for autocracies to exhibit effective management, and this is rewarded in the ratings. But because the BTI's notion of management rests on democratic norms, transformation management can be classified as "good" in the BTI only if it is linked to democratic goals and practices.

Envisaging a market-based democracy as the goal is not meant to establish limits on reform programs or to spell out their content in detail, as there is no scholarly consensus on the best path to democracy and a market economy. This study also does not claim to define the optimal sequence of democratic and economic reforms. For example, the introduction of a market economy must not necessarily precede democratization, or vice versa.

Statistical analyses have shown that for the handful of countries that experienced spectacular progress in economic development over the past 50 years, the nature of

their political system was irrelevant. The average growth of national income was virtually identical for autocracies and democracies (Przeworski et al. 2000: 271). However, because constitutional democracy and a market economy with sociopolitical safeguards represent the normative benchmarks of this study, the integration of both dimensions means that actors implementing both economic and democratic reforms score higher than those striving only for market reforms.

With these considerations in mind, the Bertelsmann Transformation Index was conceived as follows:

- Constitutional democracy and a market economy flanked by sociopolitical safeguards are the normative points of reference for this study. The BTI thus rates developing and transformation countries based on whether and to what extent they have achieved these goals.
- Given that democracy and market economy are the reference frameworks for the rankings, consolidated market-based democracies are not included in the study.
- The broad understanding of development and transformation underlying this study means that developing and transformation countries are analyzed together.
- The close relationship between democracy and a market economy is accounted for by examining the status of development separately for democracy and for a market economy, but then combining these two dimensions into a single ranking, the Status Index.
- To emphasize the crucial importance of political management, performance in this area is evaluated in a separate ranking, the Management Index. The separate Management Index also reflects the study's view that political actors are central to the quality of governance.
- To take into account the open-ended character of development processes and to highlight possible progress or setbacks, the direction of democratic and economic development is specified by the Trend Indicator.

Data for the rankings were analyzed according to the following three dimensions:¹⁴

- Status of development toward constitutional democracy (Transformation status: democracy);
- Status of development toward a market economy flanked by sociopolitical safeguards (Transformation status: market economy);
- Management of development and transformation processes (Transformation management).

These dimensions consist of five, seven and five individual criteria, respectively. These criteria exemplify the normative benchmarks of constitutional democracy and a mar-

14 This approach is a refinement of the methodology used for the Carl Bertelsmann Prize 2001, which measured the success of current development and transformation processes; on this, see Weidenfeld 2001.

ket economy flanked by sociopolitical safeguards, as well as the notion of good transformation management outlined above. Each criterion is subdivided into individual questions used to evaluate the extent to which that criterion has been fulfilled. The 17 criteria and 52 individual questions form the basis for assessment, as explained below.

Transformation status: democracy

This dimension assesses the existence and viability of democracy, the rule of law, and nation-state structures. The analyses and rating scores of the BTI 2008 reflect the status of democratic development as of the start of 2007. They are based on five criteria: stateness, political participation, the rule of law, the stability of democratic institutions, and political and social integration.

The first criterion, stateness, includes the extension of the state monopoly on the use of force to its entire territory, agreement on who qualifies as a citizen (*demos*), the separation of the constitutional order from religious dogmas, and the existence of a functioning administrative structure. In the tradition of modernization theory, this study assumes that a stable state framework is a prerequisite for democratic development.¹⁵

To measure the degree and quality of democracy achieved, this study first asks whether the populace chooses its own rulers, whether it enjoys additional political liberties, and whether its democratically legitimated rulers actually have the effective power to govern. These minimum requirements, which are derived from Robert Dahl's concept of democracy (Dahl 1971, 1989), are supplemented by the rule of law criterion (separation of powers, civil rights; see Merkel et al. 2003) in accordance with the study's benchmarks as described above. The quality or consolidation of democracy is then evaluated in terms of institutions' effectiveness and acceptance (stability of democratic institutions criterion) as well as the representation of interests and political culture (political and social integration criterion).

Status of democratic development: criteria and questions

1. *Stateness*: There is clarity about the nation's existence as a state, with adequately established and differentiated power structures.
 - 1.1 To what extent does the state's monopoly on the use of force cover the entire territory?
 - 1.2 To what extent do all relevant groups in society agree about citizenship and accept the nation-state as legitimate?

15 The dilemma of simultaneous democratization and nation-building has been analyzed by Claus Offe (1994).

- 1.3 To what extent are the state's legitimacy and its legal order defined without interference by religious dogmas?
- 1.4 To what extent do basic administrative structures exist?
2. *Political participation*: The populace determines who rules, and it has other political freedoms.
 - 2.1 To what extent are rulers determined by general, free and fair elections?
 - 2.2 To what extent do democratically elected leaders have the effective power to govern, or to what extent are there veto powers and political enclaves?
 - 2.3 To what extent can independent political and/or civic groups associate and assemble freely?
 - 2.4 To what extent can citizens, organizations and the mass media express opinions freely?
3. *Rule of law*: State powers check and balance one another and ensure civil rights.
 - 3.1 To what extent is there a working separation of powers (checks and balances)?
 - 3.2 To what extent does an independent judiciary exist?
 - 3.3 To what extent are there legal or political penalties for officeholders who abuse their positions?
 - 3.4 To what extent are civil liberties guaranteed and protected, and to what extent can citizens seek redress for violations of these liberties?
4. *Stability of democratic institutions*: Democratic institutions are capable of performing, and they are adequately accepted.
 - 4.1 Are democratic institutions, including the administrative and judicial systems, capable of performing?
 - 4.2 To what extent are democratic institutions accepted or supported by the relevant actors?
5. *Political and social integration*: Stable patterns of representation exist for mediating between society and the state; there is a consolidated civic culture.
 - 5.1 To what extent is there a stable, moderate and socially rooted party system to articulate and aggregate societal interests?
 - 5.2 To what extent is there a network of cooperative associations or interest groups to mediate between society and the political system?
 - 5.3 How strong is the citizens' consent to democratic norms and procedures?
 - 5.4 To what extent have social self-organization and the construction of social capital advanced?

Taken together, these criteria and questions assess the status of democratic development. But they are also used in the BTI as benchmarks for deciding whether a country should be classified as a democracy or an autocracy. In line with the concept of a constitutional democracy, this decision draws not only on the question regarding free and fair elections (2.1) but also on five other questions that measure political and civil liberties (2.3, 2.4, 3.4), constitutional checks and balances (3.1), and state stability (1.1).

To be termed a democracy, a country must achieve a certain minimum score on each of these six questions. Question 2.1 requires that general elections be held and basically accepted as the procedure for filling leadership positions; this corresponds to a score of six points or better. The minimum score is three points for each of the other five questions. If a country scores less than the minimum on any of these six questions, it is termed an autocracy.

Transformation status: market economy

This dimension analyzes the level of socioeconomic development, the nature of the economic and social order, and the economy's performance. The rating scores represent the status of development at the beginning of 2007 and are based on seven criteria: the level of socioeconomic development, organization of the market and competition, currency and price stability, private property, the welfare regime, economic performance, and sustainability. These criteria encompass the essential elements of a market economy incorporating principles of social justice and protection as described in the literature on welfare regimes and institutionalist economics (Esping-Anderson 1990; Eucken 1990; Schlecht, Watrin and Lambert 1993; Zinn 1992).

The first criterion, the level of socioeconomic development, reflects the fact that overcoming absolute poverty is a key precondition for market-based democracy. The basis for its assessment is the United Nations Development Program's Human Development Index, combined with indicators of social inequality and marginalization. The remaining criteria capture the economic system's institutional and performance characteristics.

Status of economic development: criteria and questions

6. *Level of socioeconomic development:* In principle, the country's level of development permits adequate freedom of choice for all citizens.
 - 6.1 To what extent are significant parts of the population fundamentally excluded from society due to poverty and inequality combined (income gaps, gender, education, religion, ethnicity)?
7. *Organization of the market and competition:* There are clear rules of the game for stable, market-based competition.
 - 7.1 To what level have the fundamentals of market-based competition developed?
 - 7.2 To what extent do safeguards exist to prevent the development of economic monopolies and cartels?
 - 7.3 To what extent has foreign trade been liberalized?
 - 7.4 To what extent have a solid banking system and a capital market been established?

8. *Currency and price stability*: There are institutional or political precautions to control inflation sustainably, together with an appropriate monetary and fiscal policy.
 - 8.1 To what extent does the country pursue a consistent inflation policy and an appropriate foreign exchange policy? Is there an independent central bank?
 - 8.2 To what extent do the government's fiscal and debt policies support macroeconomic stability?
9. *Private property*: There are adequate conditions to support a functional private sector.
 - 9.1 To what extent do government authorities ensure well-defined rights of private property and regulate the acquisition of property?
 - 9.2 To what extent are private companies permitted? Are state companies undergoing a process of privatization consistent with market principles?
10. *Welfare regime*: There are viable arrangements to compensate for the social costs of the capitalist economic system.
 - 10.1 To what extent do social safety nets exist to compensate for poverty and other risks such as old age, illness, unemployment or disability?
 - 10.2 To what extent does equality of opportunity exist?
11. *Economic performance*: The economy's performance points to solid growth.
 - 11.1 How does the economy, measured in quantitative indicators, perform?
12. *Sustainability*: Economic growth is balanced, environmentally sustainable and future-oriented.
 - 12.1 To what extent are environmental concerns taken into account in both macro- and microeconomic terms?
 - 12.2 To what extent are there solid institutions for basic, secondary and tertiary education, as well as for research and development?

Transformation management

This dimension examines the political management of development and transformation processes. It consists of five criteria: steering capability, resource efficiency, consensus-building, international cooperation and the level of difficulty. In accordance with the concept of management explained above, these criteria focus attention on leading political actors, and especially on the government and those reformers who are aiming to achieve a market-based democracy. These criteria reflect research in the social sciences on good governance, government capabilities and policy reforms (Weaver and Rockmann 1993; König et al. 2002).

This literature shows that state capacity is an essential prerequisite to successful economic reforms and modernization processes (Williamson 1994). But even if a state is capable of taking action, it can carry out reforms over the long term only when these reforms enjoy broad social support (Evans 1995; Haggard and Kaufman 1995). Political elites who integrate foreign assistance into their development strategy

have been more successful than those elites who misuse foreign support and regard it as additional source of rent income (World Bank 2002).

The steering capability criterion examines the extent to which political actors pursue market-based democracy as a strategic priority, implement their policies effectively and demonstrate a capacity for learning. The resource efficiency criterion covers—in addition to the efficient management of economic and human resources—the coordination of policies and the fight against corruption. The consensus-building criterion analyzes the extent to which political elites succeed in fostering a broad social consensus favoring reform. This criterion also encompasses efforts to deal with existing societal cleavages and the process of reconciling past injustices. The international cooperation criterion evaluates whether the political elite is prepared to cooperate productively and reliably with external supporters and neighbors.

The actor-centered notion of management that underlies these criteria is not intended to completely neglect the structural conditions of development and transformation. After all, structural conditions determine the potential scope of political action. In order to account for the influence of structural factors, a “level of difficulty” is determined along with the management criteria. The level of difficulty reflects a country’s economic and educational level, the intensity of conflicts, the existence of civil-society traditions, and the state’s institutional capacity.

A low level of economic and educational development, the presence of severe conflicts, a lack of civil-society traditions, and weak state capacity imply a high level of difficulty for transformation management. The level of economic and educational development is measured by quantitative indicators. State capacity is established on the basis of BTI scores for stateness and the rule of law.

The management dimension focuses on evaluating current political management. It is based on political activities during the period from 2005 to the start of 2007.

Transformation management: criteria and questions

13. Level of difficulty:

13.1 To what extent do structural difficulties constrain the political leadership’s governance capacity?

13.2 To what extent are there traditions of civil society?

13.3 How serious are ethnic, religious and social conflicts?

13.4 Per capita GNI PPP (2005)

13.5 UN Education Index as a measure of the educational level

13.6 Stateness and rule of law (average of BTI criteria values)

14. Steering capability: The political leadership manages reform effectively and can achieve its policy priorities.

14.1 To what extent does the political leadership set and maintain strategic priorities?

14.2 How effective is the government in implementing reform policy?

- 14.3 How flexible and innovative is the political leadership? Does it learn from past errors?
- 15. *Resource efficiency*: The government makes optimum use of available resources.
 - 15.1 To what extent does the government make efficient use of available economic and human resources?
 - 15.2 To what extent can the government coordinate conflicting objectives into a coherent policy?
 - 15.3 To what extent can the government successfully contain corruption?
- 16. *Consensus-building*: The political leadership establishes a broad consensus on reform with other actors in society without sacrificing its reform goals.
 - 16.1 To what extent do the major political actors agree on a market economy and democracy as strategic, long-term aims?
 - 16.2 To what extent can the reformers exclude or co-opt anti-democratic veto actors?
 - 16.3 To what extent can the political leadership manage political cleavages so that they do not escalate into irreconcilable conflicts?
 - 16.4 To what extent does the political leadership enable the participation of civil society in the political process?
 - 16.5 To what extent can the political leadership bring about reconciliation between the victims and perpetrators of past injustices?
- 17. *International cooperation*: The country's political actors are willing to cooperate with outside supporters, organizations and neighboring states.
 - 17.1 To what extent does the political leadership use the support of international partners to improve its domestic reform policies?
 - 17.2 To what extent does the government act as a credible and reliable partner in its relations with the international community?
 - 17.3 To what extent is the political leadership willing to cooperate with neighboring countries in regional and international organizations?

The italicized points (13.4–13.6) are derived from quantitative indicators in existing assessments (see below).

Assessment

The complexity and variety of analytic dimensions, criteria and questions used in the Bertelsmann Transformation Index require that it be based on qualitative analyses and subjective expert assessments. These methods also offer the advantage that ostensibly objective facts can be interpreted in context and weighted accordingly (Kaufmann et al. 2003: 271–272). This section explains in more detail the methods used in collecting and coding data.

Selection of countries

The purpose of this study is to compare and evaluate development and transformation processes. It is not intended to provide a general comparison of states with respect to the quality of democracy and market economy found in each. Accordingly, consolidated democracies are not included in this study. Whether a particular state should be classified as a market-based democracy can be a controversial question, for even democracies regarded as consolidated have experienced authoritarian tendencies.

Consequently, this study initially relies on institutional, formal criteria. It first excludes those countries with donor status according to the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Secondly, the selection of countries is limited to sovereign states because this study cannot account for the particular problems of dependent territories.

Thirdly, not all of the remaining states could be included in the study due to limited project resources. Thus, small countries with a population of less than two million were excluded. However, a strict application of these three specifications would exclude a number of countries undergoing especially interesting processes of development and transformation. The following five exceptions were therefore included in the ranking: Bahrain, Botswana, Estonia, Mauritius and Montenegro. The resulting list includes a total of 125 countries in the study.

Qualitative assessment

Based on the criteria and questions explained above, an expert on each country prepares a standardized report approximately 6,500 words in length.¹⁶ The country reports not only analyze the questions, but also include background information on the country, key statistics, and an overview of the country's history of transformation and its prospects for the future. In order to ensure the validity, reliability, objectivity and comparability of the country reports, the assessments are organized as follows:

- The 125 developing and transformation countries are divided into seven regional groups: South and East Africa (18 countries); West and Central Africa (18); Asia and Oceania (21); the Middle East and North Africa (18); Latin America and the Caribbean (21); the Commonwealth of Independent States and Mongolia (13); and East-Central and Southeast Europe (16). A regional coordinator—a political scientist with comparative and regional expertise—is assigned to each region to supervise the preparation of the country analyses.
- The research is advised by the BTI Board, a committee of well-respected scholars and experienced practitioners in the area of development and transformation. In coordination with the BTI Board, the regional coordinators choose country experts

16 These expert assessments are provided on the CD-ROM included with this volume.

Figure 1: Assessment criteria, questions and levels as exemplified by the separation of powers

3	<p>Criterion: Rule of Law State powers check and balance one another and ensure civil rights.</p>
3.1	<p>Separation of powers</p> <p>To what extent is there a working separation of powers (checks and balances)?</p> <p>This question refers to the basic configuration and operation of the separation of powers (institutional differentiation, division of labor according to functions and, most significantly, checks and balances). However, it does not refer to the tendency toward convergence and a fusion of powers that can be observed in parliamentary systems. It does include the subjection of state power to the law.</p> <p>There are no constraints on the basic functions involved in the separation of powers, especially mutual checks and balances. 10 <input type="checkbox"/> 9 <input type="checkbox"/></p> <p>The separation of powers is restricted partially and temporarily (e.g., to ensure governability). Fundamentally, though, a restoration of balance is sought, especially by the other branches. 8 <input type="checkbox"/> 7 <input type="checkbox"/> 6 <input type="checkbox"/></p> <p>One branch, generally the executive, has an ongoing and either informally or formally confirmed monopoly on power, which may include the colonization of other powers even though they are institutionally differentiated. 5 <input type="checkbox"/> 4 <input type="checkbox"/> 3 <input type="checkbox"/></p> <p>The separation of powers is nonexistent or exists only on paper. 2 <input type="checkbox"/> 1 <input type="checkbox"/></p>

whose scholarly qualifications and knowledge of the country ensure that their reports are as objective as possible and of high analytical quality. As a rule, each country is assessed by a domestic and an international expert.

- The country experts examine the criteria and indicators with the help of a coding manual. This manual explains all of the criteria and questions, and it formulates a four-level verbal assessment scale tailored to each question (see example, Figure 1).¹⁷ These response options also serve as suggested formulations that authors could pick up and adapt to the country’s situation. This flexible method is intended to strike a balance between standardization and sensitivity to context.
- The country analyses are uniformly structured. In addition to the responses to the questions, each analysis includes a summary, a short history of transformation, a strategic outlook and two standardized tables. Each country expert also receives a model country analysis that illustrates how to examine the questions and serves to orient his or her own assessment.

¹⁷ The BTI manual is provided on the CD-ROM included with this volume.

- A second expert independently reviews and comments on each country report to reduce subjective perceptions and enhance the assessments’ objectivity. Comments from this anonymous reviewer and other readers help in revising the analyses.
- The regional coordinators are on hand at each step of the process and function as contact persons for the authors and reviewers while reconciling differing opinions between the two. They ensure that the reports are complete, internally consistent, and comparable with one another. They compare the analyses in detail, develop a common interpretation of the questions and coordinate the individual assessments. The regional coordinators thus provide quality control. In addition, they analyze the findings for their region in a comprehensive regional report.

These procedures are intended first and foremost to guarantee the validity of the findings by ensuring that each report analyzes equivalent subject matter for each of the questions. Secondly, these measures aim to improve the objectivity of the analyses. Thirdly, they ought to enhance the reliability of the assessments by ensuring their comparability. Finally, each report should be a clear and concise analysis of the country that can be read independently of the others.

Numerical assessment

The authors of the country studies and the reviewers each independently assign scores to 49 questions in the BTI manual. Three further quantitative questions used to measure the level of difficulty are collected centrally. The basis for this is a ten-point rating scale, which ranges from one (worst score) to 10 (best score) and which is divided into four rating levels that are described in the manual.

The countries are thus assessed on whether and to what extent they match these given rating levels and fulfill the BTI criteria. These initial assessments relate observations to absolute benchmarks.

On the basis of the expert ratings and reports, the regional coordinators and the BTI Board assign scores that are comparable within and across regions for each of the 49 evaluation questions and for each of the 125 countries. First, the scores are calibrated within each region. Secondly, scores are calibrated among the different regions. This two-step calibration transforms the ratings into rankings that reflect not just the absolute benchmarks but also comparison with other countries.

Both the intra- and interregional calibration processes are organized in the form of discussions between the regional coordinators and the BTI Board. In these discussions, participants challenge and defend each country’s ranking on each indicator—in comparison to similarly ranked countries, and also in relation to similar countries with different scores. During the calibration process of this edition of the BTI, about 50 percent of the first country experts’ scores were changed, and in most of these cases (63 percent) they were adjusted downward. However, in only about six percent

of all cases have the final scores deviated by more than two points from the first expert's suggestions.

Creating the index

The aggregation of the individual scores is based on the initial assumption that the ordinal point scale approximates an interval scale. The questions within a criterion were designed to have roughly equivalent conceptual significance; the same was done for the criteria within a dimension. The scores could thus be aggregated for each criterion and for each dimension with a simple three-step process of calculating their arithmetic means.

Reliability analyses with the BTI 2008 scores corroborate the construct validity of the Status and Management Indices as well as their constituent dimensions and criteria. A principal component analysis was performed to explore the dimensionality of criteria and dimensions. For each criterion and dimension, the analyses extracted only single components with eigenvalues above one, and the extracted components explained between 67 and 98 percent of the variance in the data set, indicating unidimensionality of the composite measures. The reliability indicator Cronbach's alpha was greater than 0.824 for all composite measures—well over 0.7, which is generally considered the threshold for aggregability.

Status Index

The Status Index is created by adding the arithmetic means for the dimensions "Transformation status: democracy" and "Transformation status: market economy." The two dimensions are weighted equally. The overall score for the dimension "Transformation status: democracy" is the arithmetic mean of the five equally weighted criteria scores. The criteria scores, in turn, are the means of the scores for the individual questions, each of which is equally weighted, too. The dimension "Transformation status: market economy" is calculated analogously. The five democracy criteria each are weighted as one-fifth, and the seven market criteria as one-seventh, before they are added into the dimension score. Similarly, the individual questions are weighted unequally in the index and dimensions, since the number of questions per criterion varies.

Combining the scores for market economy and democracy may be criticized because each dimension measures different phenomena that may offset one another when added together. However, the Bertelsmann Transformation Index proceeds from the assumption that a close empirical and functional interrelationship exists between constitutional democracy and a market economy flanked by sociopolitical safeguards (see "study objectives and approach"). This interrelationship justifies combining the two dimensions into a single index, as does the strong empirical correlation that can be observed between the individual scores for democracy and market economy.

Management Index

The Management Index rates the transformation management of political elites under given structural conditions. It is intuitively clear that actors' performance should receive higher scores when achieved under adverse circumstances. Management performance is therefore weighted by a "level of difficulty" score that captures these conditions. The level of difficulty score represents the mean of six equally weighted components, which are expressed in questions 13.1 through 13.6. Four of these components are based on the assessments of BTI experts. The other two are based on per capita gross national income and the UN Education Index—quantitative indicators that reflect a state's level of economic development and education.

The two quantitative indicators are converted to a ten-point scale (see Table 1). While this rescaling ignores the detailed information on intervals that is contained in the original scales, it allows a more robust classification of states that matches the differentiation in the scales for the qualitative assessment questions. In addition, it simplifies estimating scores for the 11 countries for which the sources provide only partial data or none at all. In these cases, scores are imputed on the basis of older data, similar indicators (per capita gross domestic product), and scores for similar countries.

Table 1: Quantitative components of the level of difficulty: scaling

	10	9	8	7	6	5	4	3	2	1
Per capita GNI	≤ 1,000	≤ 2,500	≤ 4,000	≤ 5,500	≤ 7,000	≤ 8,500	≤ 10,000	≤ 11,500	≤ 13,000	> 13,000
Number of countries	16	2	4	7	13	8	15	9	35	16
UN Education Index	≤ 0.50	≤ 0.55	≤ 0.60	≤ 0.65	≤ 0.70	≤ 0.75	≤ 0.80	≤ 0.85	≤ 0.90	> 0.90
Number of countries	26	27	8	9	9	8	6	0	11	21

Sources: Per capita GNI in purchasing power parity (U.S. dollars): World Bank, World Development Report 2007 (data for 2005); UN Education Index: UNDP, Human Development Report 2006.

It can be assumed that the level of difficulty influences every aspect of management performance. Consequently, the score for the level of difficulty (on the 1 to 10 scale) is converted into a difficulty factor by which the other management scores are multiplied. Sensitivity tests using factors that varied in their degree of differentiation resulted in a difficulty factor that ranges between 1 and 1.25, with equally sized intervals between the steps of the scale.

To calculate the Management Index, the management criteria scores (MC) are first averaged and then multiplied by the difficulty factor (LD). This product is then converted to a scale from 1 to 10 (see formula).

$$\text{Management Index} = \frac{1}{4} \cdot \sum MC \cdot \left[1 + (LD - 1) \cdot \frac{0.25}{9} \right] \cdot \frac{10}{12.5}$$

Mean of management criteria	Level of difficulty converted to a scale of 1 to 1.25	Conversion to a 10-point scale
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In theory, the Status Index and the Management Index can yield scores between 1.00 and 10.00. In the rankings for 2007, the highest score achieved for the Status Index is 9.56 and the lowest is 1.36. The Management Index varies between 1.04 and 7.52. Extremely high management scores are rare because only a few countries with high levels of difficulty also have elites capable of excellent management performance. The index scores make it possible to rank each country precisely against all the countries analyzed.

The ranking of a state in both indices is based on its index score, which is calculated to two decimal places. This means that arithmetical differences in the index scores are ignored if they are less than 0.01 (or appear so due to rounding). If two or more countries' scores are tied, they share the same rank and are listed alphabetically in the tables. Since these ranks are still counted individually, the country with the next lowest index score is placed two or more ranks lower than the countries with identical scores. The rankings are divided into categories that represent different levels in the development of market-based democracy and in transformation management.

In addition to the index scores, each country's scores are provided for the individual criteria. This detailed breakdown makes it possible to reconstruct how the aggregated index scores were derived and to see where each country's strengths and weaknesses lie.

Autocracies, failed states, development trends

A state is defined in the BTI as an autocracy when it fulfills one of the six following minimum conditions:

1. Free elections are not held or not accepted as the process for electing rulers (Question 2.1 < 6).
2. There is no state monopoly on the use of force; instead, anarchy, civil war or rival clans prevail (Question 1.1 < 3).
3. There is no freedom of association or assembly; civic organizations do not exist or are suppressed (Question 2.3 < 3).
4. Freedom of expression is nonexistent for citizens or the media (Question 2.4 < 3).
5. Constitutional checks and balances on the executive, legislative or judicial branches exist only on paper or not at all (Question 3.1 < 3).
6. Civil rights are systematically violated (Question 3.4 < 3).

In all, 50 states are identified as autocracies. Nearly all of them fail to fulfill the minimum criterion of free elections. Forty percent of them also fall short on at least one other criterion. Three states (Afghanistan, Iraq and the Central African Republic) fulfill the minimum condition of free elections, but they are classified as autocracies since they have no state monopoly on the use of force. A state is classified as a “failed state” when the arithmetic mean of scores given for monopoly on the use of force (1.1) and basic administration (1.4) is less than three. This applies to Afghanistan, the DR Congo, Iraq and the Central African Republic as well as to Chad, Côte d’Ivoire and Somalia.

In order to compare autocracies meaningfully with states in the process of democratization, some of the BTI questions specify the highest score an autocracy can receive. Nearly all autocracies receive two points at best on questions 2.2, 4.1 and 4.2 in the democracy dimension, and five points at best on the management questions 14.1, 14.2 and 14.3.¹⁸ These ceilings are intended to prevent autocracies from receiving misleadingly high scores and thus compensating for their democratic deficits. Thus, an autocracy like Singapore with a highly developed market economy cannot achieve better than a midlevel ranking on the Status Index.

The particular problems of authoritarian and post-authoritarian systems are further manifested in the questions on consent to democratic norms (5.3) and reconciliation (16.5). In 54 states (including all of the 50 autocracies), the citizens’ consent to democracy cannot be reliably measured either because opinion polls are not conducted or because the results of published surveys are of questionable validity.

Therefore, the question of consent to democracy cannot be evaluated for these states and cannot be included in the average. The question on reconciliation (16.5) is not assessed for the 25 states where the authoritarian system is not linked to experiences of grave injustice or where people have already come to terms with such experiences. The consensus-building criterion is then scored on the basis of the remaining four questions.

In addition to showing a state’s index score and rank, the Status Index also shows the trends in its democratic and economic development. These trends are calculated by subtracting a country’s aggregated scores for democracy and market economy in the BTI 2006 from its corresponding scores in the BTI 2008. An increase (or decrease) of 0.5 to 1.0 points is indicated with a diagonal arrow pointing upward (or downward). Dramatic changes of more than 1.0 point are highlighted with a vertical arrow. Smaller changes are not highlighted in the ranking.

18 Only some of the failed states (Afghanistan, Democratic Republic of Congo, Iraq, Central African Republic) and some of the Asian autocracies (Bhutan, China, Nepal, Thailand) achieved higher scores on these questions.

Comparing the Bertelsmann Transformation Index to other indices

The Bertelsmann Transformation Index analyzes the management of social change on the way toward a market-based democracy. One ranking, the Status Index, locates where a country stands on the way to democracy and a market economy in comparison to all the other countries studied. A second ranking, the Management Index, classifies the quality of transformation management in global perspective. The Trend Indicator shows the direction of democratic and economic change in each of the countries analyzed. The BTI ranking differs from other indices in terms of its approach, goals and methods:

1. The BTI is based on qualitative assessments by experts.

By contrast, indices such as the United Nations' Human Development Index (HDI) are calculated from quantitative indicators (www.undp.org). For the HDI, these are a population's average life expectancy at birth, literacy rate, school enrollment and per capita gross domestic product. Another example, Tatu Vanhanen's Index of Democracy, focuses on electoral participation and the strongest party's percentage of the vote as indicators of democratization (Vanhanen 1997).

Objective indicators such as these are more reliable because they can be more readily verified. Yet, the resulting index is completely dependent on the quantifiability of the subject matter, on the selected indicators, and on the chosen method of aggregation. Missing or unreliable data can distort the measured results and thus the validity of the index. By contrast, a qualitative assessment makes it possible to interpret and weight the objective indicators in their proper context.

2. The BTI draws a distinction between management performance and the status of development toward a market-based democracy.

Assessments are based on 17 criteria and 52 questions that are tailored to the normative benchmark of constitutional democracy and a market economy flanked by socio-political safeguards. This distinguishes the BTI from the indices of the U.S.-based organization Freedom House (www.freedomhouse.org).

In its well-known annual study, "Freedom in the World," Freedom House evaluates political freedoms and civil liberties in 193 countries and 15 territories. Like the BTI, this survey is based on assessments by country experts, who in this case assign scores in response to 27 questions. The questions on political freedoms concern the holding of free and fair elections, the existence of political pluralism and participation, and the democratic functioning of government.

To evaluate the status of civil liberties, Freedom House poses questions on the freedom of expression, religion and assembly, on the rule of law, and on personal liberty. A seven-point scale is used to rate the status of political and civil liberties. Each country or territory is also designated generally as "free," "partly free," or "not free," depending on the overall rating of political freedoms and civil liberties. In addition, Freedom House indicates the trend of development in each country and designates a country that fulfills certain minimum democratic standards as an "electoral

democracy.” While this rating comprises nearly all of the countries and territories in the world, its focus is narrower than that of the BTI.

Another study published by Freedom House, “Nations in Transit,” examines the democratization process, similar to the BTI. However, it covers only 27 East European states. “Nations in Transit” also relies on qualitative expert assessments, which use 49 questions to evaluate in detail the status of democracy (elections, civil society, independent media, governance, constitutional and legal framework, corruption). Unlike the BTI, however, neither of the Freedom House studies distinguishes between features of the system and the management performance of elites.

The findings for the BTI criteria and dimensions correlate strongly with the Freedom House assessments. This further supports the validity of the BTI findings.

3. *The BTI is based on assessments by two experts for each country, as well as by the regional coordinators and the experts on the BTI Board.*

Other studies, by contrast, rely on surveys of each country’s citizens or local experts. For instance, the World Governance Assessment prepared by the Overseas Development Institute in Great Britain evaluates politics and governance in 22 countries on the basis of interviews conducted with 35 or more well-informed persons (top-level civil servants, parliamentarians, business people, scholars, journalists, etc.) in each country (Hyden, Court and Mease 2004; www.odi.org.uk/wga_governance).

While such studies tap particularly extensive knowledge of a country’s specific situation, their findings are not very comparable between countries and regions. In the BTI, the country experts’ assessments are subjected to an in-depth review process aimed at guaranteeing comparability between countries and regions.

4. *The BTI’s ranking assesses the political leadership’s management on the basis of expert assessments that are conducted expressly for this study and that refer directly to the study’s criteria.*

This is in direct contrast to the World Bank Institute’s survey of governance indicators, which are based on a secondary analysis of separate data on issues such as the rule of law, government effectiveness and political stability (Kaufmann, Kraay and Mastruzzi 2007).

The authors of the most recently published edition of the governance indicators, Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, draw on 310 data series on governance from 33 different sources (commercial risk assessment agencies, household and business surveys, nongovernmental organizations and official data banks). They group this data into six dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. This database permits these dimensions to be assessed for 212 countries and territories. BTI scores for individual criteria and questions are used in calculating four of the six aggregated indicators.

The World Bank survey calculates a mean value and a margin of error (confidence interval) for the governance quality of each country and for every dimension. This

allows countries to be compared on a standardized scale. In 2006, between eight and 13 different sources were available, on average, for each country and dimension. The percentage of countries evaluated on the basis of a single source was reduced to six from nine percent.

The advantage of the World Bank study is that its large number of data sources and individual observations allow statistical methods to be applied that reduce the likelihood of measurement error. The representativeness of each data source is assessed, and those sources judged to be more precise are weighted more heavily.

Critics have pointed out, however, that individual studies that are biased in the same direction will be weighted more heavily due to their correlation. This undercuts the precision of the governance estimates (Arndt and Oman 2006). An even more serious problem is the loss of conceptual precision associated with reducing research questions from diverse sources—which diverge in their formulation and meaning—to their numerical information content, and then recombining them into a new indicator construct (Knack 2006).

In contrast to the governance indicators, the BTI's individual questions are derived from a coherent notion of democracy, market economy and management. Its numerical scores are based on qualitative, written assessments that not only render the scores transparent but also have been subjected to rigorous discursive quality control.

5. The subject matter of the Bertelsmann Transformation Index is more comprehensive and complex than the processes, phenomena and characteristics surveyed in most other rankings and ratings.

Other indices concentrate primarily on specific issues of particular importance to those surveys' authors or initiators. The following studies are especially well known or overlap to some degree with the subject matter of the BTI:

- The Polity Project classifies countries as democracies or autocracies and analyzes regime transition processes. The project covers all sovereign states with a population greater than 500,000. It has documented fundamental characteristics of regimes for every year since 1800. The project's coding is performed by research groups at the University of Maryland and the University of Colorado (www.cidcm.umd.edu/polity).
- The European Bank for Reconstruction and Development annually evaluates the status of economic reform in the 27 transformation countries of Central and Eastern Europe (European Bank for Reconstruction and Development 1994, et seq.). The bank assesses reform of the corporate and finance sector, the liberalization of markets and trade, and infrastructural reform on a scale of 1 to 4+.
- In its annual Country Policy and Institutional Assessment, the World Bank evaluates economic, structural and social policies, and public institutions in the 80 especially poor countries that are borrowers from its suborganization, IDA. For this report, the bank's economists rate the institutions and policies of the countries within their field of expertise in comparison with countries that serve as global and intraregional benchmarks (International Development Association 2003).

- The international nongovernmental organization Transparency International provides a Corruption Perceptions Index. Like the aforementioned governance indicators, it is based on secondary analysis of published empirical studies on the perception of corruption. Its 2007 index used data from 14 sources originating from 12 independent institutions and covered 180 countries and territories (www.transparency.org/policy-research/surveys_indices/cpi/2007).
- The World Economic Forum in Davos (WEF) and the Institute for Management Development in Lausanne (IMD) have developed indices of economic competitiveness (www.weforum.org; www.imd.ch). These indices rely on data drawn from business opinion surveys and on statistical data.
- The Heritage Foundation and the Wall Street Journal have jointly published an annual Index of Economic Freedom since 1995. It analyzes the scope of economic freedom in 161 countries in terms of foreign investment, taxes, tariffs, capital markets, monetary policy, private property rights, and informal economies (www.heritage.org).
- Private firms such as the Economist Intelligence Unit and Political Risk Services offer foreign investors and multinational companies risk analyses examining economic factors and the political situation of a specific country (www.eiu.com; www.prsgroup.com).

This list of indices is not intended to be exhaustive, mainly because the number of indices has grown steadily in recent years (for an overview, see Sudders and Nahem 2005). The BTI addresses many of the aspects measured by the surveys listed above. However, the BTI evaluates them with regard to both market-based democracy and good transformation management. The BTI allows for an overall comparative ranking; at the same time, its extensive country reports provide a detailed picture of each country's situation.

These distinctive features make the Bertelsmann Transformation Index unique. They also guarantee that the BTI can complement and enrich existing composite indicators.

Overview of Regional Findings

The following chapters examine the regional results of the Bertelsmann Transformation Index 2008. They explore the development status of democracy and market economy as well as the state of transformation management in each region while providing an overview of the changes and strategies under way. The 125 states assessed by the BTI are grouped into the following regions:

- East-Central and Southeast Europe (16 countries)
- Commonwealth of Independent States and Mongolia (13 countries)
- Middle East and North Africa (18 countries)
- South and East Africa (18)
- West and Central Africa (18 countries)
- Asia and Oceania (21 countries)
- Latin America and the Caribbean (21 countries)

Both analytic and geographical criteria were used in assigning countries to individual regions. The goal here was to group countries that, on the one hand, share similar conditions and points of departure, and, on the other, are in regional proximity to each other to provide political actors meaningful measures of comparison.

There have been some changes made to the regional grouping for the BTI 2008. An additional six states are now included in the BTI: Montenegro (East-Central and Southeast Europe), Kuwait and Oman (Middle East and North Africa), Mauritania and the Republic of Congo (West and Central Africa) and Bhutan (Asia and Oceania). In addition, the states of Rwanda and Burundi are now grouped with the region of East and South Africa.

The regional reports respond to the BTI's key questions, providing an overview of the results: What is the overall state of development and transformation in the region? What are the secrets to successful management in developing and transformation processes in states and regions throughout the world? And why do some processes fail, falter or stagnate? To whom do we attribute successful transformation? Which problems must still be resolved? How good are the chances of solving current and future problems?

The regional reports follow the overall structure of the individual country reports. Expanding on the commonalities and differences within each region, the reports explain and clarify the scores given. In doing so, they provide the context from which

the scores were derived. Finally, the reports summarize key trends and assess the outlook for the future.

East-Central and Southeast Europe

An overview of transformation in Albania, Bosnia and Herzegovina (hereafter: Bosnia), Bulgaria, Croatia, the Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia (hereafter: Macedonia), Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.



Overall, East-Central and Southeast Europe was characterized in the past two years by further consolidation of democracy and a market economy. In East-Central European countries, however, this general tendency was overshadowed by political polarization and the growing role of populist parties. In Poland and Slovakia, the political leaders of right-wing populist and extremist parties became part of the government, and in Hungary the largest opposition party organized anti-government demonstra-

tions that were accompanied by violence. Confrontational policies typified the center-right government in Slovenia and the months-long stalemate after parliamentary elections in the Czech Republic.

In the Southeast European countries, two phenomena can be observed: a continuing process of state dissolution and reorganization, and progress toward accession to the European Union. The EU-mediated “State Union of Serbia and Montenegro” disintegrated when the Montenegrin parliament declared Montenegro an independent state on June 3, 2006. The former Serbian province of Kosovo, which is under United Nations administration, is on the verge of becoming an autonomous state after the UN Special Envoy, Martti Ahtisaari, presented a plan in March 2007 to achieve independence under international oversight.

Following the East-Central European states, Bulgaria and Romania joined the European Union on January 1, 2007. EU membership represents recognition of the transformation that both of these countries have achieved in the 15 years since the end of the East-West conflict. Albania, Macedonia, Croatia and Montenegro deepened their relations with the European Union, and each achieved progress toward becoming a consolidated liberal democracy with a market economy. Bosnia and Serbia lagged behind the aforementioned states in their development.

East-Central and Southeast Europe differs from other regions of the world in that the prospect of EU accession provided an important objective and incentive for political and economic reforms. However, the prospect of accession alone cannot fully explain why the transformation process in each of these countries has spawned systems that can now be considered market-based democracies, despite all their deficiencies. Other facilitating factors can be identified through comparison with other regions: a relatively good endowment with human capital, a comparatively egalitarian social structure, a pro-democracy movement rooted in civil society, the correct institutional choices made in constitutional reforms, and the total delegitimation of socialist and other authoritarian alternatives (Brusis and Thiery 2003).

This report provides an overview of the status, trajectory and management of the transformation processes in the 16 East-Central and Southeast European countries. It is based on the findings of the Bertelsmann Transformation Index and the underlying country reports, which analyze each individual country in detail.

When interpreting the Bertelsmann Transformation Index (BTI) rating scores for Bosnia, it should be kept in mind that the scores generally refer to the state level. The quality of democracy, market economy and management are not separately evaluated for its two entities (substate units). The role of the High Representative of the International Community is not evaluated here and is interpreted as a sort of framework for the Bosnian political elite’s transformation management.

Transformation status: democracy

Eleven of the 16 East-Central and Southeast European states can be ranked as functioning liberal democracies that are completely or nearly consolidated, with democracy scores between 8.6 and 9.7. The other five states, with scores between 6.7 and 7.9, can be considered defective democracies: Albania, Bosnia, Macedonia, Montenegro and Serbia.

To be sure, these states do not differ significantly from their East-Central European counterparts with regard to their scores for the rights and forms of democratic participation. However, they show deficiencies in the other four democracy assessment criteria. In Albania, Montenegro and Serbia, these deficiencies are rooted in the weakness of the rule of law and civil society. In addition, there is antagonism between the dominant ethnic groups, which puts strain on democratic development, especially in Bosnia and Macedonia.

Table 1: Transformation status: democracy; BTI 2008

Democracies		Defective democracies	
(10 to 9)	(<9 to 8)	(<8 to 7)	(<7 to 6)
Slovenia	Croatia	Montenegro	Bosnia and Herzegovina
Czech Republic	Poland	Macedonia	
Estonia	Bulgaria	Serbia	
Hungary	Latvia	Albania	
Lithuania	Romania		
Slovakia			

Note: The table corresponds with BTI data. Countries are listed in order of their democracy scores.

In most East-Central and Southeast European countries, state power structures are not only established but also sufficiently differentiated. However, this is not entirely true for Albania, Bosnia, Serbia and Macedonia, where the understanding of the nation-state or the body politic remains contentious. In Bosnia, the state's monopoly on the use of force still relies on the presence of multinational peacekeeping troops, which have been under EU command since November 2004. The states represented in the Peace Implementation Council decided in January 2007 to maintain international civilian oversight of the peace process—contrary to the original plans—because they feared the Bosnian state could be destabilized.

In view of Kosovo's looming independence, Bosnia's leading Serbian politicians had threatened to hold a referendum on secession in the Serbian-dominated part of the country. In addition, the October 2006 parliamentary elections once again confirmed the nationalist parties as the leading representatives of the three ethnic groups. This came after an attempt had already failed in April 2006 to strengthen the Bosnian state through constitutional reform.

Not only in Bosnia but also in Macedonia and Serbia, the major ethnic groups and their political representatives continue to disagree over who belongs to the body

politic and how inclusively the nation should be conceived. Ethnopolitically motivated wars and violent conflicts have broken out in all three of these states, ending only when the international community intervened militarily. Kosovo and Macedonia still rely on an international military and police presence to ensure that tensions do not escalate to violence again.

After achieving independence, Estonia and Latvia enforced a doctrine of citizenship that classifies Russian-speaking minorities (which make up 35 to 40 percent of these former Soviet republics' populations) as migrants, thus excluding them from citizenship. Over the years, some of these residents have been naturalized and granted the full rights of citizenship. While about 18 percent of the Latvian population was still essentially stateless in 2006, the corresponding figure for Estonia was roughly 10 percent.

Free elections take place in every country of the region and serve the function of selecting political representatives. Citizens enjoy the civil liberties essential to democracy. However, the Russian-speaking noncitizens in Estonia and Latvia continue to be barred from voting in parliamentary elections. Albania's parliamentary elections in June 2005 marked a step toward consolidation insofar as the Socialist Party acknowledged its electoral defeat, resigned from government and accepted a government led by the rival Democratic Party.

Throughout the region, democratically elected representatives possess effective power to govern, in principle. Bosnia represents a special case in this respect, as the international community's High Representative can enact laws and remove politicians from office if he observes a violation of the Dayton Agreement. In response to criticism of his decision-making as ad hoc and exempt from judicial review, the High Representative has intervened less frequently since 2006.

Agents of democratic reform are circumscribed in their effective power to govern by powerful economic actors that emerged during economic transformation. Particularly in some of the Southeast European and Baltic countries, they exercise great influence on politics and can shape decisions to suit their interests. These businesspeople and companies have acquired their assets in part through dubious methods. Their power results partly from the weakness of political parties that lack a broad social base and rely on the private sector for financial support.

In many East-Central and Southeast countries, it has turned out to be especially difficult to establish broadcasting corporations that have an obligation to a public interest yet are independent from the government. The Polish government strengthened its influence on public radio and television programming by enacting a new media law in December 2005 that assures it a majority in the media oversight council. In addition, it barred media critical of the government from receiving certain information.

Throughout the region, the principles and mechanisms underlying the rule of law still need improvement. Deficiencies in the rule of law are most pronounced in Southeast Europe, particularly regarding widespread political corruption and its lack of sanctions; the independence, professionalism and political neutrality of the judiciary; and the protection of civil liberties.

The information and monitoring resources available to parliaments in most Southeast European countries are insubstantial. The parliaments in these countries are therefore limited in their capacity to oversee and debate laws. While the independence of the judiciary is constitutionally and institutionally guaranteed in all countries of the region, there are still numerous structural weaknesses in the organization of the court systems, particularly in Southeast Europe. These problems include corruption, courts' insufficient financial autonomy, political patronage in the appointment of judges, abuses of judicial immunity, and public criticism of court decisions by politicians.

Under pressure from the European Union, Bulgaria amended its constitution in March 2006 and February 2007 to limit judges' immunity and expand parliamentary oversight of public prosecutors and the supreme court. The chief prosecutor who was subsequently appointed opened investigations and brought indictments against a large number of judges, public prosecutors and police officers. The newly founded Romanian anticorruption agency has also indicted a number of high-ranking politicians and civil servants on bribery charges.

Although all of the region's countries have launched initiatives to fight discrimination against ethnic minorities, *de facto* discrimination against members of the Roma minority remains widespread. In many countries, minorities also suffer discrimination in government hiring practices, which are influenced by political loyalty and patronage instead of fairness and professionalism.

Macedonia took significant steps during the past two years to achieve an equitable representation of ethnic Albanians in the civil service. As the Ohrid Agreement stipulated, a new law on the territorial organization of local administration was passed in 2005, and new legislation on police reform was passed in October 2006. Both laws create a framework for decentralizing public administration and assuring a fair ethnic balance in it.

In Bosnia, over 90 percent of the refugees and displaced persons have had their property returned to them by now. However, their actual ability to use their dwellings and parcels of land is often restricted by local agencies. Croatia's courts and public agencies often discriminate against ethnic Serbs.

In the East-Central European countries, democratic institutions are accepted in principle and perform reliably. However, individual political actors have reacted to increasing political polarization by blocking particular institutions, which has also impeded cooperation among institutions. For instance, members of the Hungarian opposition boycotted appearances of the prime minister before the parliament and framed local elections as a plebiscite on the government. In Poland, the brothers Lech and Jaroslaw Kaczynski—as president and prime minister—attempted to discipline their two extremist coalition partners, Samoobrona and the League of Polish Families, by threatening to hold new elections. Political conflicts and instability interfered with governing and legislative activities.

In Southeast Europe, the traditionally influential pattern of refusing to recognize institutions and boycotting them has been noticeably less frequent in recent years. In

Bosnia, conflicts between the entities and the state level impede the functionality of democracy. Antagonism between the parties, which is rooted in irreconcilable conceptions of the future state, prevented constitutional reform in April 2006. This reform would have replaced the previously rotating state presidency by a president with a longer term, established two new state ministries (for agriculture and for science and research), strengthened the role of the state prime minister, and simplified legislation. In Serbia, by contrast, the parties managed to ratify a new constitution in fall 2006 after many years of preparation, breaking with the constitutional legacy of the Milosevic system.

While the military, security forces, major corporations and trade unions are classified as veto actors due to their power resources, in East-Central and Southeast Europe they have neither fundamentally challenged the prior trajectory of transformation nor caused backsliding toward authoritarianism.

Nowhere in the region do we find a party system that is strongly rooted in society, with consolidated, large membership rolls and stable, distinct electoral milieus. By now, the Czech Republic, Estonia, Hungary and Slovenia have developed party systems characterized by a limited number of relatively stable parties (Lewis 2006). In Romania and Serbia, parliamentary elections in 2004 and 2007 indicated a consolidation of their party systems. Most East-Central and Southeast European countries have tri- or multipolar party systems. Many clientelist parties with weakly developed programmatic identities can be seen, mainly in the Baltic and Southeast European countries.

Populist and extremist parties have participated in the government in Poland and Slovakia; but populist argumentation and interpretations implying simple solutions are also widespread in the region's other countries and represented in their party systems. Parties that typify this include the Alliance of Young Democrats in Hungary, Res Publica in Estonia, the Civic Democratic Party in the Czech Republic and the Labor Party in Lithuania. The borders between populism and political extremism are blurry, as shown by the example of the Serbian Radical Party, which again got the most votes in Serbia's January 2007 parliamentary elections, and whose goals include annexation of the part of Bosnia dominated by ethnic Serbs. Extremist fringe parties include Ataka in Bulgaria (9 percent of the votes in the 2005 parliamentary elections) and the Croatian Party of Rights (5 percent in 2003).

Eurobarometer surveys carried out in the new EU member states show that citizens have even less faith in political parties than in other political institutions. The number of respondents who place confidence in political parties as of November 2006 was particularly low in Poland, at only 7 percent, followed by Lithuania (9 percent), Bulgaria (10 percent) and Latvia (11 percent), while on the other hand 20 percent of Estonians and 19 percent of Slovenians expressed confidence (European Commission 2007). These survey results roughly reflect the varying organizational stability, volatility and fragmentation of the respective party systems.

The party systems in Albania, Bulgaria and Lithuania are characterized by high electoral volatility (see Table 6). However, high volatility rates often just indicate the

parties' organizational instability, while the ideological and cultural ties between particular constituencies and particular party "families" are more stable.

Approval of democracy as a value system is relatively high in all of the region's countries, although the opinions reflected in polls are strongly swayed by the approval ratings of the current government and its policies. Lower approval ratings in Bosnia reflect a rejection of the Bosnian state, mainly among ethnic Croats and Serbs. There are close-knit networks of politically active civic organizations in East-Central Europe, but they are limited to the capitals and urban centers. Traditionally, civil society in Southeast Europe has been weakly developed.

Transformation status: market economy

The level of economic development in East-Central and Southeast Europe is about as high as the level of democratic development. Four groups of countries may be distinguished on the basis of the BTI criteria. The first group consists of those new EU member states that have developed market economies with well-functioning institutional frameworks. This group also scores relatively high on the performance and sustainability criteria.

The second group consists of those EU members whose markets and competition are somewhat more weakly organized, or which show notable deficiencies in the performance and sustainability criteria. This group includes Bulgaria, Latvia, Lithuania, Poland and Romania, as well as Croatia, which has not yet acceded to the European Union. Though Macedonia has improved much since 2005, it still lags behind this group and thus constitutes its own "group." The fourth group includes countries that have significant defects in their economy's institutional framework and/or that trail the region's other states in both economic performance and their socioeconomic level of development: Albania, Bosnia, Macedonia and Serbia.

Table 2: Transformation status: market economy; BTI 2008

Developed market economy		Viable or functioning market economy	Market economy with functional flaws
(10 to 9)	(< 9 to 8)	(< 8 to 7)	(< 7 to 5)
Czech Republic	Lithuania	Macedonia ▲	Montenegro
Estonia	Poland		Albania
Slovenia	Latvia		Serbia
Slovakia	Croatia		Bosnia and Herzegovina
Hungary	Bulgaria ▲		
	Romania ▲		

Note: The table corresponds with BTI data. Countries are listed in order of their scores for the status of market economy. Arrows indicate movement to a higher or lower category for the BTI 2008.

There are major differences among the individual countries of East-Central and Southeast Europe regarding income levels and the magnitude of social inequality. As was the case two years ago, Slovenia, the Czech Republic, Hungary and Slovakia are the region's most highly developed nations in respect to per capita gross national income (GNI). Income disparities are relatively minor in all of these countries except Slovakia.

Particularly in the poorer Southeast European countries, social exclusion, poverty, and deficiencies in the education and health care systems are strongly pronounced and structurally solidified. Some of these countries had great structural poverty already in the socialist era, which has now worsened; some became impoverished as a consequence of the wars in former Yugoslavia. While the Czech Republic, Slovenia and Hungary combine comparatively high income levels with minor income disparities, Gini coefficients and quintile ratios are relatively high for the other countries.

Table 3: Socioeconomic development data

	GNI per capita	HDI	Gini coefficient	Quintile ratio	Education expenditures
Albania	5,420	0.780	28.2	4.1	2.8
Bosnia and Herzegovina	7,790	0.800	26.2	3.8	n/a
Bulgaria	8,630	0.816	29.2	4.0	
Croatia	12,750	0.846	29.0	4.8	4.5
Czech Republic	20,140	0.885	25.4	3.7	4.8
Estonia	9,100	0.858	35.8	5.9	6.7
Hungary	16,940	0.869	26.9	4.0	5.8
Latvia	13,480	0.845	37.7	6.9	6.5
Lithuania	14,220	0.857	36.0	6.9	5.4
Macedonia	7,080	0.796	39.0	n/a	n/a
Montenegro	8,630	n/a	n/a	n/a	n/a
Poland	13,490	0.862	34.5	6.6	6.2
Romania	8,940	0.805	31.0	4.9	3.3
Serbia	8,630	n/a	n/a	n/a	n/a
Slovakia	15,760	0.856	25.8	3.9	4.0
Slovenia	22,160	0.910	28.4	3.4	6.2

Sources: per capita gross national income (GNI): figures in 2005 US dollars, purchasing power parity (Serbia and Montenegro: author's own estimate based on per capita GNI at the official exchange rate), World Bank; HDI (Human Development Index): figures from 2004, UNDP. Gini coefficient/quintile ratio: World Bank (World Development Indicators 2006), for the new EU member states: Eurostat 2007, figures for 2004. The quintile ratio describes the proportion between the average income of the richest and the poorest fifths of the population. Education expenditures: as a percentage of gross domestic product (GDP), Eurostat, UNDP; Albania: BTI country reports (figures for 2004), Croatia: BTI country reports.

Transparent and binding rules for market competition have been created in the East-Central European countries as well as in Bulgaria, Croatia and Romania. The Southeast European countries have continued to improve their legal frameworks for market competition. For instance, Macedonia liberalized its telecommunications sector and—like Romania—it introduced a flat rate tax on personal and corporate income. Bosnia implemented a nationwide value added tax and established a council on fiscal policy to coordinate budget policy, as well as state-level watchdog agencies for banking and antitrust enforcement. The informal sector remains substantial in some of these countries, however. While the new EU member states have developed effective competition policy in the context of acceding to the EU, the legal framework and implementation of competition policy are significantly flawed in the Southeast European countries. The Southeast European states integrated their bilateral free trade agreements by joining the renewed Central European Free Trade Agreement in October 2006, which comprises Albania, Bosnia, Croatia, Kosovo, Macedonia, Moldova, Montenegro and Serbia. Tariff barriers still exist within Bosnia between its entities.

All of the East-Central and Southeast European countries have institutional arrangements for sustained inflation control and an appropriate exchange rate policy, including central banks and monetary anchors. The new EU member states have also committed to comply with the EU's Stability and Growth Pact, which constrains their macroeconomic policy within clear guidelines. Slovenia became a member of the European Economic and Monetary Union on January 1, 2007. Following Estonia, Latvia and Lithuania, Slovakia joined the European Exchange Rate Mechanism II in November 2005 in preparation for EU membership. In Southeast Europe, Bulgaria, Bosnia and Macedonia have pegged their national currency to the euro, and Montenegro is already using the euro as its official currency.

Only Serbia had double-digit inflation in 2006. Most of the region's countries reduced their budget deficits in the past two years; however, Hungary constitutes an exception to this, as its deficit reached nearly 10 percent of GDP in 2006 due to wage increases in the public sector and loss of revenue. All of the region's countries had current account deficits in 2006; in Latvia and Montenegro, they exceeded 20 percent of GDP. These deficits were driven by rising import demand and growing influxes of foreign investment. Each of the regions' countries has an independent central bank that determines its own monetary and interest-rate policy, although relations between the government and the central bank are contentious in many countries.

The East-Central European countries have privatized their formerly state-owned major enterprises. The Southeast European countries have also sold off numerous major enterprises during the past two years; even so, the private sector's share of the GDP remains lower here than in East-Central Europe. For example, Croatia's government has been hesitant to privatize five major state-owned shipyards that are deep in the red.

Nowhere in the region do social safety nets and institutions compensate sufficiently for the social impact of market reforms. Though existing institutions are sup-

posed to guarantee equality of opportunity, their success is limited. Relatively well-developed social security systems and institutions that offset gross social disparities exist primarily in the East-Central European countries. Although many citizens and public opinion in the region note growing social inequality, at least in East-Central Europe the upheavals of transformation are not reflected in macro-social indicators (see the Gini coefficients and quintile ratios in Table 3).

During the period under review, macroeconomic growth continued apace, stimulated by a strong global economy, substantial foreign direct investment, stable macroeconomic conditions, rising domestic demand, and increasing EU transfers. The Baltic states achieved the highest growth rates. However, the Southeastern European states were also distinguished by sustained strong growth. However, the Southeast European states were also distinguished by sustained strong growth. The Southeast

Table 4: Key macroeconomic data

	GDP growth (in percent)	Current account balance (in percent)	Unemployment rate (in percent)	Inflation rate (in percent)	Budget surplus or deficit (in percent)
Albania	5.0	-7.4	13.8	2.5	-4.1
Bosnia and Herzegovina	6.0	-12.8	41.0	7.5	-0.2
Bulgaria	6.1	-14.8	8.9	7.3	3.3
Croatia	4.8	-8.1	11.7	3.2	-3.0
Czech Republic	6.1	-4.2	6.7	2.5	-3.5
Estonia	11.4	-14.9	6.4	4.4	3.8
Hungary	3.9	-5.8	7.5	3.9	-9.2
Latvia	11.9	-21.1	4.4	6.7	-1.5
Lithuania	7.7	-9.0	5.6	3.7	-0.3
Macedonia	4.0	-0.4	35.9	3.2	-0.6
Montenegro	6.3	-29.1	19.7	3.0	-0.3
Poland	6.1	-2.3	12.2	1.0	-3.9
Romania	7.7	-11.3	5.2	6.6	-1.9
Serbia	5.7	-12.9	33.2	12.5	2.7
Slovakia	8.3	-7.0	15.3	4.5	-3.4
Slovenia	5.2	-2.5	6.0	2.5	-1.4

Source: European Bank for Reconstruction and Development, estimates for 2006. GDP growth: real growth of GDP in percent; current account balance as a percentage of GDP; unemployment rate based on registered unemployment, year-end 2006 (Slovakia: 2005); inflation rate: percentage change in the consumer price index; budget surplus or deficit: general government balance as a percentage of GDP.

European countries as well as Poland and Slovakia show high growth rates accompanied by high unemployment rates. On the one hand, unemployment is a result of the structural transformation of their economies and thus represents an unavoidable side effect of modernization. On the other hand, unemployment disproportionately affects the old industrial and peripheral agrarian regions, as well as older workers and those with few skills. These segments of the labor market have not yet profited from the sustained economic growth.

Upon joining the European Union, the new EU members committed to meet EU environmental standards. To ensure they make the necessary investments, they have received substantial financial aid since their accession. The region's countries have downsized their heavy industry in the course of economic restructuring, and have thus managed to dramatically reduce their carbon dioxide emissions. In Estonia, Latvia, Slovenia, the Czech Republic and Hungary, environmental movements carry considerable political weight. Overall, though, most East-Central and Southeast European countries generally subordinate environmental protection to the interests of economic development.

While Estonia and Latvia each spent over 6.5 percent of their GDP on education in 2005, education expenditures were lower in the East-Central European countries. In Albania and Romania, education spending amounted to only about 0.3 percent of GDP. Investment in research and development is inadequate due to insufficient funds. This has led to the decay of formerly significant research infrastructure, combined with a brain drain of highly qualified scientists. In recent years, the East-Central European states have increased their efforts to modernize their educational systems and their research and development facilities.

Transformation management

Transformation management in East-Central and Southeast Europe scored lower overall than in the BTI 2006, although the region's countries still occupy four of the top ten and 11 of the top 25 ranks in the BTI Management Index. While scores declined for all of the East-Central European countries and Lithuania, all of the Southeast European countries except Bosnia improved.

Four groups of countries can be ascertained by comparing transformation management scores within the region (see Table 5). The leading group consists of two countries, Estonia and Slovakia, which performed well or very well on all four management criteria—steering capability, resource efficiency, consensus-building and international cooperation. In Slovakia's case, the scores pertain to the government of Mikulas Dzurinda, which held office until mid-2006, while the management performance of its successor, Robert Fico's government, was not included in the ratings.

In second place are nine states whose political actors scored somewhat lower across all criteria: Croatia, Latvia, Slovenia, Bulgaria, Lithuania, Hungary, the Czech Republic, Macedonia and Romania. While Macedonia scored significantly higher

Table 5: Quality of transformation management, BTI 2008

Successful management	Successful management with weaknesses		Management with moderate success
(10 to 7)	(< 7 to 5.6)		(< 5.6 to 4.3)
Estonia Slovakia	Croatia Latvia Slovenia ▼ Bulgaria Lithuania ▼ Hungary Czech Republic Macedonia ▲ Romania	Montenegro Albania ▲	Serbia Poland ▼ Bosnia and Herzegovina

Note: The table corresponds with BTI data. Countries are listed in order of their Management Index scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

than in the BTI 2006, ratings were worse for Slovenia, Lithuania, the Czech Republic and especially Poland.

The new Macedonian government led by Prime Minister Nikola Gruevski, which has held power since July 2006, made remarkable progress in implementing the Ohrid Agreement and in reforming the judicial and health systems. Political elites also continued cooperating across ethnic lines in governance. On the whole, despite ongoing conflicts, this effectively kept in check the ethnopolitical cleavages between the ethnic Macedonian majority and the ethnic Albanians.

Slovenia's center-right government, led by Prime Minister Janez Jansa, proposed an ambitious program to increase the country's competitiveness. However, it was unable to implement central reform ideas, such as the flat rate tax. It also failed to build a broad social coalition in support of reform. The government fired numerous employees for political reasons and increased its influence on public broadcasting and the leading daily newspaper, *Delo*. In the Czech Republic, the implementation of important social and health care reforms was paralyzed by the seven-month crisis in forming a new government and by the weak parliamentary position of Mirek Topolánek's new center-right government. Lithuania's political elites were ensnared in numerous scandals and corruption cases, which triggered a serious crisis of confidence among the population.

Poland fell nearly 30 places in the rankings, thus slipping into the third group of countries, which also comprises Montenegro, Serbia and Bosnia—states whose steering capability, resource efficiency and consensus-building were obviously weaker than the second group's. The reasons for Poland's fall lie in the Kaczynski government's confrontational and populist policies. The government proved unable to implement the moral and political vision of the "Fourth Republic" proclaimed by the

Kaczynskis (Staniszki 2006). Instead, the government launched lustration and decommunization campaigns that misused the legitimate concern to come to terms with the past to instead divide Polish society. Within the European Union, Poland pursued erratic and ambivalent policies.

Bosnia's political elites not only again displayed the region's weakest management performance, but also fell further behind due to abortive constitutional and police reform and mounting confrontation. Admittedly, post-war conditions impede reform policy more in Bosnia than in any of the region's other countries. The BTI Management Index accounts for these and other structural conditions with the level of difficulty criterion, which tends to give higher marks to good management performance in countries like Bosnia. When management performance is weighted according to the level of difficulty, this alters the relative positions of the East-Central and the Southeast European countries.

Due to more difficult transformation conditions, political leadership was ranked higher in Croatia than in Latvia, Lithuania, Slovenia and Hungary. A relatively high level of difficulty also improved the rankings of Latvia, Bulgaria and Macedonia. Conversely, the relatively low level of difficulty in Poland caused it to fall behind Albania and Serbia, even though "pure" management performance was weaker in these states.

The political systems of the 16 East-Central and Southeast European states limit the scope of action for steering transformation management. During the period under review, 11 of the 16 countries elected a new parliament, which in a majority of these cases wrought a change in political direction. The proportional representation systems predominant in the region have given rise to a multitude of parties and complex distributions of power in the parliaments. As a result, coalition or minority governments have become the sole models of governance. Most governments are formed by three or more parties; in Macedonia, there were actually seven different parties participating in each of its two cabinets from 2005 to 2007. Such governments are shaped by the necessity for compromise among coalition partners, strong incentives for alliances with opposition parties, and a shift of political power away from the center of government toward the party leadership or the parliament.

Only in Albania (since the September 2005 elections), Estonia, Bulgaria (since August 2005), Latvia, Lithuania (since November and June 2006, respectively) and Slovakia (since July 2006) have governments been able to rely on clear parliamentary majorities. All other governments depended on narrow majorities (e.g., Macedonia since August 2006, Montenegro, Poland, Hungary, the Czech Republic, Slovenia), suffered the erosion of their parliamentary power base while in office (e.g., Croatia, Latvia, Lithuania, Romania), or did not enjoy a secure parliamentary majority (38 percent of all cabinets from January 2005 to May 2007). At times, these minority governments have even had to negotiate compromises based on shifting, provisional alliances with different parties in parliament. Voluminous cabinets and a large number of ministerial portfolios have been created to accommodate the interests of numerous coalition partners.

Table 6: Structural features of political systems

	System of government	Electoral system	Most recent parliamentary elections	Effective number of parties	Volatility
Albania	Parliamentary	mixed	July 3, 2005	3.9	63.0 ▲
Bosnia and Herzegovina	Parliamentary	proportional representation	Oct. 1, 2006	7.2	21.7
Bulgaria	Parliamentary	proportional representation	June 25, 2005	4.8 ▲	45.1
Croatia	Parliamentary	proportional representation	Nov. 11, 2003	4.0	29.5
Czech Republic	Parliamentary	proportional representation	June 2/3, 2006	3.1	19.6
Estonia	Parliamentary	proportional representation	April 3, 2007	4.4	39.1
Hungary	Parliamentary	mixed	April 9/23, 2006	2.6	8.1
Latvia	Parliamentary	proportional representation	Oct. 7, 2006	7.1 ▲	26.2 ▼
Lithuania	Parliamentary	mixed	Oct. 24, 2004	4.7	81.3 ▲
Macedonia	Parliamentary	proportional representation	July 5, 2006	6.9 ▲	24.2 ▼
Montenegro	Parliamentary-presidential	proportional representation	Sept. 10, 2006	3.2	14.7
Poland	Parliamentary-presidential	proportional representation	Sept. 25, 2005	4.3	30.3 ▼
Romania	Parliamentary-presidential	proportional representation	Nov. 28, 2004	4.9 ▼	25.2
Serbia	Parliamentary-presidential	proportional representation	Jan. 1, 2007	4.5	11.3 ▼
Slovakia	Parliamentary	proportional representation	June 18, 2006	4.8 ▼	19.5
Slovenia	Parliamentary	proportional representation	Oct. 3, 2004	4.9	15.5

Source: Country reports and Ismayr 2004; authors' own surveys and calculations. Status as of May 2007. System of government: The defining criterion is not only the direct election but also the effective power position of the president. Effective number of parties: The reciprocal sum of the squares of each party's proportion of the total parliamentary seats (on the basis of the most recent election results). Volatility: The sum of the gains made in the last election by all parties represented in parliament, compared to the second-most-recent election. In Croatia, Poland, Romania, Slovenia, and the Czech Republic: first chamber of parliament; in Bosnia: state parliament. Triangles denote major changes from the previous legislative period (+/- ≥ 1 party; +/- ≥ 20 percentage-point gain/loss).

Apart from Slovenia, not a single cabinet—understood here as a team comprising a prime minister and a particular coalition of parties—survived the entire BTI study period from January 2005 to January 2007. A quarter of the 16 countries were governed by more than two different cabinets during this time (see Table 7).

Only Hungary has been able to establish a tradition of stable governments since its political transition, with cabinets averaging more than 25 months in duration. This has been favored by its mixed proportional-majoritarian electoral system, which has almost always produced clear governing majorities in its five parliamentary elections since 1990. To be sure, frequent change of government is advantageous in that it undercuts opportunities for organized interests to stall the progress of reforms (Orenstein 2001). But it also restricts politicians' strategic horizons and thus reduces the chances for professionalizing governance and orienting it towards strategic priorities.

These political and institutional instability factors and barriers exist in both East-Central Europe and Southeast Europe. Therefore, they alone cannot explain the opposite management trends in the two subregions. One explanation for this discrepancy is the end of accession conditions once countries join the European Union. The prospect of accession fulfills an important orientational function for reform actors within a state, and it serves to integrate various political forces. Since the goal of EU membership satisfies the desires of most citizens, governments can give it high priority and orient their actions precisely toward reforms required for accession, which in many areas coincide with reforms to consolidate democracy, the rule of law and a market economy.

While reform processes in Southeast Europe continue to be guided by the prospect of accession, which imposes discipline in many respects, there have been no comparably sweeping external incentives, objectives and conditions for the East-Central European countries since 2004. Lacking the accession conditions, East-Central Europe's political actors are less compelled to consider foreign perceptions and possible EU reactions. With the lapse of the integrative consensus on the goal of accession, competition intensifies among moderate political actors in the middle of the party spectrum. Parties with a strong base throughout society—such as the oppositional Hungarian Civic Alliance—have tried to integrate extremist fringe groups through ideological overtures.

A similar calculus of assimilation and marginalization induced Slovakia's Robert Fico and Poland's Kaczynski brothers to include extremist right-wing parties in their governing coalitions. Along with these partisan political effects, agenda effects also foster the increase in populist rhetoric and political polarization.

During accession preparations, the adoption and implementation of the body of EU law dominated domestic legislation; the Brussels criteria for a functional and competitive market economy defined the corridors of national economic and fiscal policy. With the decision in favor of accession, governments, parliaments and citizens could no longer decide whether they wanted this technocratic agenda; at most, they could influence its timing (Grzymala-Busse and Innes 2003). Many voters noticed that although they could change the actors on the political stage, they could

Table 7: Governance capability

	Duration of cabinet	Number of parties	Parliamentary support	End of cabinet	Stability
Albania	07/04–07/05	5	oversized coalition	elections	13
	07/05–	4	oversized coalition		
Bulgaria	07/01–06/05	2	minimal winning coalition	elections	20
	08/05–	3	minimal winning coalition		
Estonia	04/03–04/05	3	minimal winning coalition	elections	17
	04/05–03/07	3	minimal winning coalition	elections	
	04/07–	3			
Croatia	12/03–03/06	4	minority coalition	withdrawal from coalition	18
	03/06–	3	minority coalition		
Latvia	12/04–04/06	4	oversized coalition	withdrawal from coalition	11
	04/06–11/06	3	minority coalition	elections	
	11/06–	4	oversized coalition		
Lithuania	12/04–06/06	4	oversized coalition	withdrawal from coalition	12
	07/06–	3	minority coalition		
Macedonia	11/04–07/06	7	oversized coalition	elections	15
	08/06–	7	oversized coalition		
Montenegro	11/02–11/06	2	minimal winning coalition	elections	
	11/06–	2	minimal winning coalition		
Poland	05/04–09/05	1	single party minority	elections	12
	10/05–05/06	1	single party minority	formation of coalition	
	05/06–07/06	3	minimal winning coalition	change of prime minister	
	07/06–10/06	3	minimal winning coalition	breakdown of coalition	
	10/06–	3	minimal winning coalition		
Romania	12/04–12/06	4	minority coalition	withdrawal from coalition	17
	12/06–04/07	3	minority coalition	withdrawal from coalition	
	04/07–	2	minority coalition		
Serbia	04/04–10/06	4	minority coalition	withdrawal from coalition	15
	10/06–01/07	3	minority coalition	elections	
	05/07–	4	minority coalition		
Slovakia	10/02–09/05	4	minority coalition	withdrawal from coalition	17
	09/05–02/06	3	minority coalition	withdrawal from coalition	
	02/06–07/06	2	minority coalition	elections	
	07/06–	3	minority coalition		
Slovenia	12/04–	4	oversized coalition		18
Czech Republic	08/04–04/05	3	minimal winning coalition	resignation of prime minister	22
	04/05–08/06	3	minimal winning coalition	elections	
	09/06–01/07	1	single party minority	withdrawal of parliament's support	
	01/07–	3	parity		
Hungary	09/04–04/06	2	minimal winning coalition	elections	25
	06/06–	2	minimal winning coalition		

Source: Authors' compilation based on country reports. Status as of May 2007; Number of parties: Number of parties in government. Oversized coalition: not all governing parties are necessary for a parliamentary majority. Stability: average duration of cabinets in months, since 1989 for Poland, Slovakia, Czech Republic (Czechoslovakia), since 1992 for Estonia, since 1993 for Latvia, since 1991 for Albania, Macedonia, Lithuania, since 1990 for all other countries (see also Müller-Rommel et al. 2004).


do little to alter policy. The only political actors offering real (or purported) alternatives were the extremists and populists, who successfully expanded their voter base during and after the accession phase.

The growing significance of populist and extremist parties moreover reflects the profound structural transformation of societies and economies in East-Central Europe. Market reforms and economic integration into the Single European Market have helped form a camp of “transformation losers” without a realistic prospect of social advancement: low-skilled and older workers, retirees, small farmers, and the residents of rural, peripheral or old industrial regions. These groups are susceptible to populist agitation, and they increasingly vote for extremist parties like the League of Polish Families and the Slovak National Party.

Conclusions

As this report on the status of democratic and market transformation in East-Central and Southeast Europe shows, democracy and market economies are relatively well developed here, in global comparison. On balance, the region has made rather little progress in political and economic transformation since 2005. This is mainly because it had already attained a relatively high level of development at the start of the period under review. While the eight East-Central European states are already EU members along with Bulgaria and Romania, the rest of the Southeast European states are nearing their goal of accession to varying degrees.

Result Management Index			Result Status Index		
2008	2006		2006	2008	
7.43	7.29	Estonia	9.29	9.42	
7.20	7.32	Slovakia	9.06	9.14	
6.87	6.88	Croatia	8.71	8.57	
6.86	6.78	Latvia	8.20	8.60	
6.83	7.41	Slovenia	9.45	9.49	
6.73	6.51	Bulgaria	7.98	8.44	
6.70	7.00	Lithuania	9.02	9.16	
6.67	6.81	Hungary	9.16	9.18	
6.62	6.95	Czech Republic	9.23	9.56	
6.52	5.54	Macedonia	7.08	7.52	
6.49	6.33	Romania	7.89	8.31	
6.13	–	Montenegro	–	7.28	
5.60	5.32	Albania	6.61	7.07	
5.41	–	Serbia	–	7.20	
5.27	6.36	Poland	8.90	8.76	
4.59	4.69	Bosnia a. Herzegovina	6.61	6.51	



Political Transformation

Economic Transformation

The BTI findings show that good transformation management can narrow the socioeconomic development gap between East-Central and Southeast Europe. Since the last BTI, the disparity between the East-Central and the Southeast European countries has decreased by 0.52 points in the Management Index and 0.12 points in the Status Index.

To be sure, this trend is partly attributable to weaker transformation management in the East-Central European countries. But the index scores and the underlying country analyses also show that Bulgaria and Romania have managed to implement extensive reforms, as have Albania, Croatia and Macedonia. In view of this progress, Croatia opened accession negotiations with the European Union in October 2005, Macedonia achieved the status of an accession candidate in December 2005, and Albania signed a Stabilization and Association Agreement with the European Union in June 2006.

In contrast to these countries, the development prospects for Serbia and Bosnia are less certain. Neither of these countries has yet negotiated a Stabilization and Association Agreement with the European Union. In Serbia, the parties in the democratic camp managed to overcome their differences and form a governing coalition in May 2007. However, if Kosovo achieves internationally legitimated independence, this could destabilize Serbia's democratic development and relations with ethnic Serb minorities in neighboring countries. Paradoxically, Kosovo's secession also provides an opportunity for Serbia to draw closer to Europe, since Kosovo not only carries the potential for ethnopolitical conflict; it also represents an economic problem region and thus a burden on Serbia.

Bosnia poses the greatest cause for concern. As the BTI shows, Bosnia not only continues to trail the rest of the region, its position continues to deteriorate, in contrast to its neighboring states. Bosnia's consistently weaker scores for democracy, market economy and management performance suggest that there is also little hope for a positive transformation dynamic in the future.

The Commonwealth of Independent States and Mongolia

An overview of development and transformation in Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Republic of Moldova (hereafter: Moldova), Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.



Western perceptions of political and economic change in the post-Soviet region have changed significantly over the past two years. Peaceful regime change in Georgia and Ukraine and the fall of President Akayev in Kyrgyzstan had attested to a period of dynamic change that raised some optimistic observers' hopes for a regional wave of democratization. But other news soon dominated the headlines:

- The manipulated elections of 2006 did not alter the political circumstances in Belarus at all. Instead, they plunged the country into even deeper isolation.
- Russia's President Putin is implementing his notion of a "guided democracy" in an ever more authoritarian manner. At the same time, he has effectively shown his neighbors and the Western world the consequences of dependency on Russian energy supplies. Internationally, he is increasingly perceived as a difficult partner in foreign policy.
- In Turkmenistan, the unexpected death of President Niyazov did not set off a crisis that might have opened up opportunities for political change. Instead, the transition to his successor proceeded with relative calm.

The hopes of previous years pinned on several countries in the region now seem to have been dashed, with a government crisis in Ukraine, authoritarian tendencies in Georgia and continuing mass protests and extreme instability in Kyrgyzstan. After the initial euphoria, the new governments again found themselves in a grueling daily political grind and—given the enormous challenges—they were confronted with numerous setbacks. Most recently, the parliamentary elections in Armenia, which international election observers categorized as relatively free and fair, offered a small ray of light in the gloom of post-socialist depression.

The findings of the BTI 2008 confirm all of these perceptions, thus underscoring the tendencies that were already adumbrated in its last edition. The region is drifting

apart; there are conflicting trends that have intensified in recent years. Small and laborious steps toward transformation, which are definitely yielding initial successes, cannot belie the fact that the dynamics of transformation have exhausted themselves throughout the entire region. Stagnation and even regression—particularly in the consolidated autocracies of Belarus, Turkmenistan and Uzbekistan—are seen alongside slight positive changes in the defective democracies of Georgia, Kyrgyzstan and Moldova. In the process, gaps are growing between the Soviet successor states, as well as within each individual country—politically, economically and socially.

The average status score for the entire CIS and Mongolia region has improved slightly compared to the BTI 2006 (+0.27). This improvement is more pronounced in political transformation (+0.34) than in the economic sphere (+0.22). However, a positive trend cannot be inferred from this, especially since this improvement can basically be traced back to particular developments in just a handful of countries (including Georgia, Kyrgyzstan and Moldova) whose sustainability remains quite questionable. Ukraine has maintained the highest Status Index score within the region.

Georgia, ranked second, has forged ahead of Armenia and Mongolia. There is no change in the region's last five—Azerbaijan, Belarus, Tajikistan, Uzbekistan and Turkmenistan. Despite slight gains in their scores (especially for Tajikistan), the last three of these have slipped a few ranks and are once again not among the ranking's top 100.

A glance at transformation management shows the same picture: On average, the level of governance in the region has not changed significantly. Differences are revealed only when one looks at each individual government's reform management.

Transformation status: democracy

The momentum of the various color and flower revolutions of 2003 through 2005—the Rose Revolution in Georgia, the Orange Revolution in Ukraine and the Tulip Revolution in Kyrgyzstan—did not trigger a regional wave of transformation. To the contrary, authoritarian tendencies seem to have hardened, even if a quick glance at the region's scores seems to suggest a different outcome—namely, slight improvement in the region.

This picture is distorted, however, by the strong improvement of the newcomer among the index's democracies—Kyrgyzstan—and Moldova, as well as by Georgia's relative consolidation. If one disregards Kyrgyzstan and Moldova, for example, the status score is practically unchanged in comparison to 2006. Both countries have improved substantially in two key criteria for democracy, political participation (2) and the rule of law (3). The average for these two areas, excluding Kyrgyzstan and Moldova, supports the thesis of authoritarianization. Both of these scores are worse than those in the BTI 2006.

On closer examination, the consolidated autocracies of Belarus, Azerbaijan, Tajikistan, Uzbekistan and Turkmenistan show no sign of a drive toward democratization.

Quite the contrary: At the beginning of the period under review, the Uzbek government showed in its crackdown in Andijan of May 2005 what radical steps can be taken to ward off forces that jeopardize the regime. On balance, the human rights situation has deteriorated, especially in Central Asia.

While Armenia is stagnating in its political transformation process, a progressive trend toward authoritarianism must be ascertained for Russia. Both of these countries lie in the gray area between defective democracy and competitive autocracy, with executive control strengthening further in Russia to the detriment of civil rights and judicial independence. Armenia has taken reform measures long demanded by the Council of Europe—in electoral law, to limit executive power, and to strengthen civil rights—but their implementation was initially a total flop. The referendum held to adopt the reforms was boycotted by the opposition and obviously manipulated by the government. Both Armenia and Russia are holding parliamentary elections in 2007 and presidential elections in 2008, the conduct of which will definitely have an impact on their ratings in the BTI 2010.

Kyrgyzstan also belongs to the hybrid systems, even though the BTI is classifying it for the first time as a (highly defective) democracy. This assessment is not only justified by its conducting free and fair elections after the fall of the Akayev regime, which the new president, Bakiyev, clearly won. More importantly, the quality and protection of civil rights have improved substantially.

A process of readjusting the separation of powers began, which ended in a power struggle that exploited the instability of institutions. This is reflected in a below-average score for effective democratic institutions (question 4.1)—and this in a region in which the performance of democratic institutions is weak already. The situation in Kyrgyzstan is thus extremely fragile.

It is entirely possible that the current phase in Kyrgyzstan merely augurs an interregnum between two authoritarian regimes. But it is also possible that the country will manage to slowly and sensitively consolidate democracy, though the difficult regional environment does not weigh in favor of this. And finally, the exacerbation of regional and clan-based cleavages cannot be ruled out.

Table 1: Transformation status: democracy; BTI 2008

Democracies (10 to 8)	Defective democracies (< 8 to 6)	Highly defective democracies (< 6)	Moderate autocracies (> 4)	Autocracies (< 4)	Failed states
	Ukraine Mongolia Georgia Moldova ▲ Armenia	Kyrgyzstan Russia	Kazakhstan	Belarus Azerbaijan Tajikistan Uzbekistan Turkmenistan	

Note: The table corresponds with BTI data. Countries are listed in order of their democracy scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

As in Kyrgyzstan, the Ukrainian power struggle documents the institutional weaknesses of its system of government. The opposing parties exploit obvious gaps in rules and regulations to create a political advantage. The potential arbitrating authority, the judiciary—and here, most prominently, the constitutional court—is permeated by politics and thus part of the power struggle.

One of the region's most significant weaknesses, the effectiveness of democratic institutions, received the lowest average scores for the region as a whole and is glaringly apparent in none other than the region's democratic frontrunner, Ukraine. Weak institutions often go hand in hand with weak intermediary structures. It should therefore come as no surprise that, as in the BTI 2006, intermediary structures, that is, a stable and inclusive party system and a differentiated and sustainable network of interest groups, received the lowest average scores in the region.

By contrast, the stateness criterion has by far the region's best average score in the status of political transformation. It is the only political transformation criterion in which some of the region's countries achieve the maximum scores—specifically, for the state's monopoly on the use of force penetrating the entire state territory (Belarus), for acceptance of the nation-state and the equality of all citizens before the law (Mongolia), and for the secularist character of the regime (multiple countries).

Apart from Georgia, all of the region's countries also boast their best individual scores in this criterion. But Georgia, too, took significant steps forward in extending the state monopoly on the use of force (with the integration of Adzharia) and in the presence and efficiency of basic administrative structures (by fighting corruption and increasing tax collection rates). Tajikistan showed the strongest improvement in the state's monopoly on the use of force (question 1.1) and basic administrative structures (question 1.4) thanks to its advancing process of state-building.

The regimes in many of the region's states—especially in the North Caucasus and Central Asia—are still supported by dominant economic or regional clans or balanced out in the personal interests of their protagonists. To many observers, the Central Asian regimes, in particular, appear to be personalized to such an extent that regime change would necessarily amount to a system crisis. However, the smooth transition in Turkmenistan from the late Turkmenbashi Saparmurat Niyazov to his successor Gurbanguly Berdimuhammedow in the region's putatively most personalized regime—which is dominated, moreover, by just a single clan—suggests that the systems' structural stability may be greater than this.

As mentioned above, Kyrgyzstan and Moldova have shown the most improvement in the region in terms of political transformation during the period examined for the BTI 2008. In the Moldovan case, this is largely a matter of consolidation, which is also likelier to continue due to its more favorable environment and international support. Its improved institutional stability points to this, too.

The improvement in Moldova's BTI scores thus owes much to its recently begun process of administrative decentralization and to its judicial reform of 2005, which professionalized the judiciary and increased its independence. To perpetuate this trend, though, it must more resolutely combat political influence peddling and cor-

ruption. The national anticorruption strategy (also adopted in 2005) shows the way. After all, Moldova is the least corrupt country in the region, according to Transparency International's Corruption Perception Index for 2006.

Success in fighting corruption is a key reason for Georgia's consolidation. This is exerting an effect on administrative capacity, the steering capability of selected officials, and the independence of the judiciary. The country receives the region's highest scores (9 points each) for free and fair elections (question 2.1) and the acceptance of democratic institutions (question 4.2).

Transformation status: market economy

The region is experiencing sustained economic growth. However, large population groups are not profiting from this. The exploitation of this growth to implement structural reforms (that is, to create stable market institutions), to attract investment and to strengthen the competitiveness of domestic products leaves much to be desired. This finding is also reflected in the region's BTI scores.

The trend in the status of economic development shows a slight improvement compared to 2006. Transformation toward a market economy continues to be somewhat farther along than the level of democracy in this region. As before, robust economic growth, for the most part induced by raw materials, is boosting overall performance. According to the European Bank for Reconstruction and Development (EBRD), average real economic growth for the region amounted to 9.8 percent of GDP in 2006, ranging from 2.7 percent in Kyrgyzstan to an unbelievable 32 percent in Azerbaijan, where oil exports got a powerful boost from the construction of the new Baku-Ceyhan pipeline.

Together with continuing declines in inflation and budgets that have been consolidated on a spectrum ranging from large surpluses to at most moderate deficits, these figures demonstrate why the region's countries made their most significant average gains in the criterion of overall economic performance (see Table 2).

This has not yet impacted socioeconomic status, however. On the contrary, the score for this has actually deteriorated slightly since 2006 and is the lowest, on average, of all the region's economic indicators. This apparent discrepancy is explained by the fact that the bulk of the populace has not profited from the economic upturn. Inequality in the distribution of income is stagnating at a high level and is actually increasing in some countries in the wake of rent-seeking behavior. Regional and structural poverty is as stubbornly pronounced as ever. Consequently, the region's score for equality of opportunity (question 10.2) is its second worst among the economic indicators, although the scatter of this variable's values is the least, meaning that all countries are at a similar level here.

The region does better than its overall average for market transformation in its level of foreign trade liberalization and in the two currency and price stability questions—fighting inflation and fiscal policy—as well as in economic performance. Out-

Table 2: Key economic data, CIS and Mongolia

Country	HDI rank	Gini Index	UN Education Index	Inflation (in percent)	Real GDP growth (in percent)	Budget balance as percent of GDP	Current account balance as percent of GDP	GDP per capita (PPP, in US\$)
Year	2004	2006	2006	2006	2006	2006	2006	2004
Armenia	80	33.8	0.91	2.9	13.4	-1.8	-4.5	4,101
Azerbaijan	99	36.5 (2002)*	0.89	8.3	32.0	0.5	18.8	4,153
Belarus	67	29.7	0.95	7.0	9.9	1.4	-4.1	6,970
Georgia	97	40.4	0.91	9.2	9.4	-2.9	-9.5	2,844
Kazakhstan	79	33.9	0.96	8.6	10.6	6.4	1.0	7,440
Kyrgyzstan	110	30.3	0.92	5.6	2.7	-2.0	-19.7	1,935
Moldova	114	33.2	0.89	12.8	4.0	-0.3	-11.9	1,729
Mongolia	116	30.3	0.91	4.8	8.4	3.6	5.2	2,056
Russia	65	39.9	0.95	9.7	6.7	7.5	9.7	9,902
Tajikistan	122	32.6	0.90	11.9	7.0	1.7	-3.9	1,202
Turkmenistan	105	40.8	0.91	9.0	9.0	1.9 (2005)	12.7	4,584
Ukraine	77	28.1	0.94	9.1	7.1	-0.9	-1.5	6,394
Uzbekistan	113	26.8	0.91	6.8	7.3	0.4	12.0	1,869

Sources: ADB 2007, EBRD 2007; HDR 2006; IMF 2007, World Bank 2006

Note: Per capita GDP: purchasing power parity

* Other data drawn from household and income surveys in Azerbaijan put its Gini Index at 19.0. This would abruptly make Azerbaijan the most equal country in the world regarding income, which is implausible. According to World Bank studies, the Azerbaijani survey suffers from a small sample in which high-income households are underrepresented. Older World Bank data thus appear more reliable.

standing here are Georgia's fiscal consolidation course; budget reorganization in Armenia, Kyrgyzstan and Mongolia, which was stimulated significantly by donors and foreign currency transfers; and a forward-looking austerity policy in Kazakhstan (the regional frontrunner in the market economy status rankings) and especially in Russia (which earned the highest score for macrostability). Also encouraging in this category is Tajikistan's stabilization.

Besides economic performance, foreign trade liberalization and education and research policy have booked noteworthy improvements since the BTI 2006. But only in economic performance can a pan-regional trend be discerned. All of the other improvements are based on substantial changes in just a few countries and often only in Georgia, which made the biggest gains in terms of its market economy status as well.

Take foreign trade liberalization, for example. After Georgia radically simplified its customs laws in 2006, the BTI recognized it as having one of the most liberal trade regimes. Its simple and transparent customs system, supported by resolute anti-smuggling measures, has significantly reduced corruption in this area. Trade barriers are to be further reduced by customs and tax agencies becoming more tightly meshed.

The best scores in this area go to Armenia, a country that has long led the region in liberalization, doubtless in part because the number of its trading partners has been compulsorily limited. It imposes duties of 10 percent on only a third of its imports. The rest is completely free of tariff or quantitative barriers, as are all of its exports. The International Monetary Fund thus awarded Armenia its highest score, a “one” for “most liberal,” in its Trade Restrictiveness Index. Besides Armenia and Georgia, Moldova, Mongolia and Kyrgyzstan also belong to the WTO. But Kyrgyzstan, in particular, has learned the hard way that early accession has not enhanced the competitiveness of its domestic production.

Based on the scatter of the scores for liberalization, we can see that just a few positive outliers are raising the region’s overall score. This question has the most scatter, which is partly due to the countries bringing up the rear, Uzbekistan and Turkmenistan. As in the past, Belarus joins these two state-controlled economic systems at the bottom of the scale in such other regulatory categories as market-based competition (question 7.1), the banking system (question 7.4) and property rights and private enterprise (questions 9.1 and 9.2).

Education and research policy is another example of statistical distortion due to Georgia’s outlier status. Like others in the region, Georgia’s education system was on the verge of collapse due to chronic underfunding and endemic corruption. At the beginning of the period under review, the government tried to make a radical turnaround, especially in the university sector, with an anticorruption campaign, comprehensive evaluation, and more stringent licensing procedures for private institutions. The transparency of these measures leaves something to be desired, however.

Ultimately, these reforms amount to initial improvements at the low level that typifies the region. This is obscured by these countries’ quite high scores in the UNDP Education Index. The index measures the region’s level of education, which is still relatively high, but not the rather bleak state of its education systems. Environmental concerns—the second question for sustainability along with education and research policy—remain neglected in political priority-setting. The regions’ countries all remain stuck at a similarly low level.

Transformation management

The region’s average score for management of political and economic transformation did not change significantly (+0.28) during the period under review (2005–2007). Since the BTI 2006, Georgia has forged to the forefront of the CIS and Mongolia

region. The Saakashvili government has continued on its reform course and can claim its first partial successes. At the same time, the balance sheet would look even better if the executive branch did not risk undermining the rules of democracy while implementing its reforms.

Table 3: Quality of transformation management, BTI 2008

Successful management	Successful management with weaknesses	Management with moderate success	Weak management	Failed or nonexistent management
(10 to 7)	(< 7 to 5.6)	(< 5.6 to 4.3)	(< 4.3 to 3)	(< 3)
	Georgia Mongolia	Ukraine Armenia Kazakhstan ▲ Kyrgyzstan ▲ Moldova ▲ Tajikistan	Russia Azerbaijan	Belarus Uzbekistan Turkmenistan

Note: The table corresponds with BTI data. Countries are listed in order of their Management Index scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

A look at the changes in individual countries reveals a more dynamic picture than the regional average would suggest. Moldova shows the greatest gain in the Management Index. This is due not only to the extremely low level of its past performance in political leadership, but also to the government's increased openness to reform and cooperation since the March 2005 elections.

Two autocracies with absolutely no democratic tendencies—Azerbaijan and Kazakhstan—belong to the regional winners. Political actors in both of these resource-rich countries exploited the bandwagon effect of high raw materials prices much better than in the past to achieve macroeconomic stabilization; even so, the countries still lag behind their enormous economic potential.

Ukraine and Kyrgyzstan were also able to significantly improve their management performance, thus emphasizing the cautiously positive trend of the BTI 2006. In contrast, crippling stagnation prevails in the countries bringing up the rear, Belarus, Uzbekistan and Turkmenistan. The latter two, in particular, consistently land in last place in every individual criterion of the Management Index and threaten to fall completely behind the rest of the region.

As in the BTI 2006, the criterion of resource efficiency was the lowest rated on average for the region, due not least to grave deficiencies in the fight against corruption. The region's countries received their best average scores for international cooperation.

Level of difficulty

The framework conditions that confront the region's political actors and define their scope for action are classified as medium difficult, on average. Along with structural difficulties such as problems with stateness and unfavorable geographical and topographical conditions (especially in Georgia, Azerbaijan, Moldova, Kyrgyzstan and Tajikistan), the lack of civic traditions remains the greatest barrier to reform in the region. This is not likely to change even in the medium run. For one thing, in many countries the political leadership tended to obstruct civic engagement during the period under review. For another, even those societies where certain opportunities exist to participate in civil society (Mongolia, Kyrgyzstan, Georgia, Armenia and Ukraine), these societies also face extremely low levels of popular trust in state institutions, as well as great political apathy. Potential newly emerging civic structures and traditions will be heavily burdened by this for a long time to come.

The quantitative indicator of per capita gross national income shows that the level of development is becoming increasingly disparate within the region. The resource-rich countries with great economic potential (Russia, Kazakhstan, Azerbaijan) are pulling ahead of the region's poorest countries, whose economic development is very slow to gather steam and which will remain dependent on external aid in the medium to long run (Mongolia, Tajikistan, Moldova, Kyrgyzstan)—and this trend is accelerating. Social cleavages are growing within most of these countries, too. Particularly in those countries with pronounced ethnic heterogeneity, regional disparities and competing clan structures (the Central Asian countries and Azerbaijan), the social exclusion of part of the population poses growing challenges for the government.

The population's educational level is comparatively high in all of the region's countries. In the UNDP Education Index (which is a quantitative variable in calculating the level of difficulty), all of these countries still place in the front ranks worldwide. However, these good scores obstruct the view of the region's actual problems in education and research: The positive legacy from the Soviet Union is being increasingly depleted due to the education system's drastic underfundedness and eroding structures. In addition, numerous countries are suffering from an enormous brain drain among the well-educated social strata.

As before, the greatest level of difficulty is attributed to Tajikistan. Political leadership toward a market economy and democracy is structurally impeded by a very low level of development, scarcity of resources, a crumbling infrastructure and unfavorable geographical and topographical conditions. Even nine years after its civil war, society remains almost as cleft as the landscape. Regionalist currents put additional strain on state coherence.

Steering capability

The setting of strategic priorities and adherence to them, the actual implementation of reforms, and political actors' ability to learn are determinants of a government's steering capability in the transformation process. The country reports' rating scores and assessments for this criterion paint a picture that is symptomatic of the region's entire performance in the Management Index.

Apart from the tail-end countries—Belarus, Turkmenistan and Uzbekistan—whose management performance is for the most part stagnant in this area too, nearly all of the countries show a slight uptrend. On average, though, the whole region remains at a low level. This mainly reflects the fact the most governments are either explicitly pursuing economic reforms exclusively or only giving lip service to political reforms. A trend foreshadowed in the BTI 2006 is continuing: Georgia's performance has kept improving, while Russia has deteriorated—the only country in the region to do so.

The Saakashvili government has used its advantage of a stable majority at all levels to decisively continue its reform course. It posted successes in implementing reform measures, particularly in public administration and privatization. However, efficiency gains in governmental structures often came at the cost of implementing reforms democratically. All too often, the government has propagated the idea that the trend toward consolidating the supremacy of the executive branch is necessary for effectively and quickly implementing crucial reforms.

Georgia's most recent constitutional change, which strengthens the judiciary, and the firing of its justice minister, whom NGOs had accused of failing to take action to improve the human rights situation in prisons, are seen as a possible signal that the president is softening in response to national and international criticism.

Ukraine's slightly improved scores could be better yet if long-term goals were not all too often subordinated to the short-term interests of political tactics and patronage needs. In addition, frequently shifting political alliances make it difficult to set priorities. Kazakhstan receives the highest score possible for an autocratic regime, mostly for its implementation of market reforms. While its implementation of financial and pension reform was highly effective, the trend toward authoritarianism was simultaneously exacerbated in the political sphere.

Although Russia's President Putin continues to pursue long-term priorities, his goal of retaining political power and state intervention in the economy are increasingly departing from the BTI objectives of democracy under the rule of law and a socially responsible market economy. In the economic realm, liberal reformers appear to have lost the power struggle once and for all. To increase economic growth, the government is increasingly embracing a course of state intervention in the economy and nationalization of companies in strategic sectors.

Resource efficiency

As in the BTI 2006, the region's performance was weakest in this management category, on average. This is all the more remarkable because in contrast to the BTI 2006, the two questions on efficient use of available resources and political coordination no longer have a cap for autocracies, and nearly all countries scored higher in these areas. With the clear exception of Georgia, however, the governments' engagement in fighting corruption is rated even lower than in the last study's timeframe. Among all the individual questions, fighting corruption is identified as the region's absolute weak point. Governments appear helpless in the face of endemic corruption in all spheres. Measures to fight it remain largely ineffective or are increasingly used selectively as weapons against political opponents.

The Georgian government's anticorruption policy is the only one assessed as broadly successful. Mainly responsible for this is a coherent mixture of strategies: effective prosecution of corruption and abuse of authority, supported by significant salary raises for the police and administrators and the creation of incentives to conduct economic activities legally. Better integration of large sectors of the population in a watchdog role could possibly have led to even greater success.

The outcome is quite mixed regarding the efficient use of economic and human resources. While some countries (Kazakhstan, Tajikistan, Russia) are maintaining a relatively stringent austerity policy and have made progress in using state funds to further their goals, transparency and accountability in budget management remain weak points, as does the decentralization of public administration and its professionalization according to meritocratic principles.

In addition, very few of these states succeed convincingly in coordinating conflicting interests. President Nazarbayev's regime in Kazakhstan seems to come closest to this in some areas, but this follows clearly hierarchical structures in which members of the government have hardly any independent influence beyond implementing presidential orders. In many of the region's countries, hierarchical, bureaucratic structures compete with informal networks, which leads to tremendous incoherence.

Consensus-building

Overall, Mongolia continues to greatly outpace the rest of the region's countries in this category's core elements—building a consensus on the country's long-term democratic and economic development, bridging political cleavages, and involving civil society in the political process. Mongolia remains the region's example of how it is possible for even an economically weak country to enjoy universal and stable acceptance of democracy and a market economy. At best, only the political leaders of Georgia and Ukraine also attain satisfactory results, with Kyrgyzstan, Armenia and Moldova keeping up to a lesser extent.

The political management of most of the region's countries mainly reveals stated commitments to democracy as mere rhetoric. Political decision-makers' will to guarantee involvement of civil society in the political process receives particularly weak scores overall. In most cases, a high degree of consensus—mostly uninfluenced by veto actors—prevails among elites on the long-term goal of establishing a market economy. However, elite opinions often diverge sharply on its concrete form, especially regarding the role of the state.

The strongest regional gains in this category were made by Kyrgyzstan and Moldova. In Kyrgyzstan, the fall of the Akayev regime in March 2005 gave a revitalizing boost to a civil society that was already quite active in regional comparison. However, its inclusion in the political process has not yet been institutionalized under the new leadership, either.

In Moldova, the changed political constellation after its 2005 parliamentary elections led to a more stable consensus on the country's reform course. With parts of the opposition supporting President Voronin's reelection, a noticeable rapprochement occurred between the governing Communist Party and the opposition parties, such that political cleavages appear less obvious. However, the populace is becoming more dissatisfied with the country's economic stagnation and lack of success in fighting poverty.

Georgia's assessment shows a slight negative trend. The Saakashvili government's support remains quite broad but also extremely unstable. High popular approval ratings for the president's reform course refer solely to the fight against corruption and to foreign policy, while the majority seems to be growing increasingly dissatisfied with the government's performance in the fight against poverty and unemployment. As is true throughout the region, governmental relations with civic groups are informed by mistrust.

This is all the more astonishing because the Georgian government was recruited largely from former representatives of nongovernmental organizations. Especially in the initial phase just after the Rose Revolution, it often ignored warnings articulated by NGOs to observe democratic rules and respect human rights.

Belarus, Turkmenistan and Uzbekistan are once again at the bottom of the regional rankings. Every form of political participation—apart from presidential toleration—is suppressed in these countries, and political actors who might promote democratic reforms are marginalized. Clientelistic, paternalistic governance appears to be continuing seamlessly in Turkmenistan under its new president.

International cooperation

In general, international cooperation enjoys a relatively high status in the region. All of these countries are more or less intensively integrated as members within the system of international organizations. But there are significant differences in their alignment and motivation for international cooperation. Across the board, they empha-

size the pursuit of their economic interests. But throughout the region, political leadership has not made use of external relations in democratizing, and it used them only to a limited extent in implementing market reforms. Exceptions to this are Armenia, Georgia, Mongolia and Ukraine, which have utilized their external relations in working to achieve the goals of both dimensions. Consequently, relations are better with international forums and institutions that are economically oriented.

By contrast, relations are tense between the leadership of most states and institutions such as the Organization for Security and Cooperation in Europe (OSCE). After the color revolutions in Georgia and Ukraine and the end of the Akayev era in Kyrgyzstan, skepticism toward international NGOs has grown deeper, which is reflected in even worse scores vis-à-vis the BTI 2006 for states such as Belarus, Uzbekistan and Turkmenistan.

The large, resource-rich countries, Russia and Kazakhstan, act from a position of perceived strength on the international level. They behave as reliable partners in economic contexts, forgo support from international financial institutions (the World Bank and the International Monetary Fund), and reject criticism of human rights violations and constitutional or democratic deficits as meddling.

Russia continues to try hard to preserve its role as regional hegemon. During the period under review, it most notably used the question of export prices for gas deliveries to Georgia, Belarus, Moldova and Ukraine to advance its political goals. It is increasingly trying to exploit countries' dependence on Russian raw material supplies in its foreign policy.

Due to its rule-of-law and democratic deficits, Belarus is the only European country in the region that is not a member of the Council of Europe. Though Azerbaijan is a member, it has been censured multiple times for noncompliance with democratic norms. To date, this has not prompted its political leadership to take the necessary steps.

The region's economically weak countries receive better scores, as a rule, because they are the most dependent on international cooperation. This cooperation is utilized to promote reform in some countries, particularly in Georgia, Mongolia, Tajikistan, Armenia, Kyrgyzstan and Moldova. Armenia's political leadership cultivates international contacts to an unusual extent, not least to bypass or overcome its isolation from its neighbors, Turkey and Azerbaijan.

International pressure on Armenia intensified greatly in the runup to its May 2007 parliamentary elections. The United States threatened to freeze \$230 million that Armenia was to be granted from Millennium Challenge Account funds if the elections once again did not meet international standards. The European Union also made intensification of Armenia's process of moving toward EU accession contingent on the electoral process. Despite some irregularities, international observers attested to clear progress compared to all previous balloting since Armenia achieved independence.

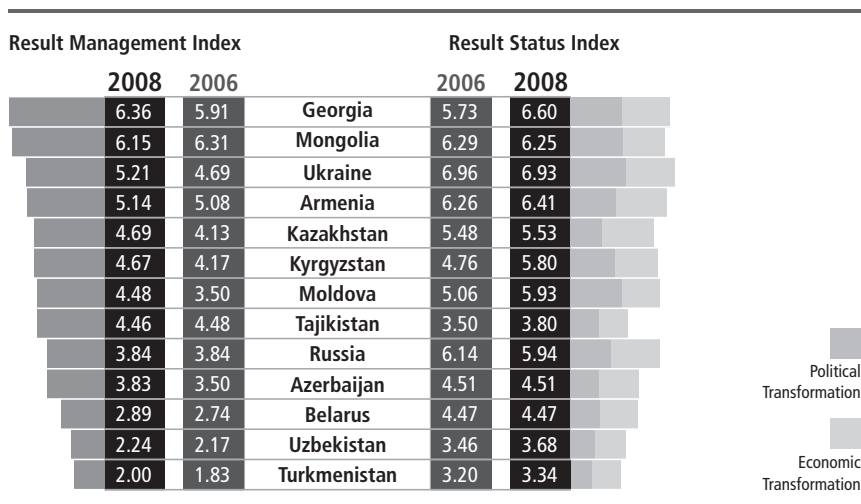
Georgia is seeking closer ties to NATO and the European Union. In the process, it is using instruments of association to advance its policy of reform. Kyrgyzstan's new

leadership has been able to win back some of the international credibility squandered by its predecessor, Akayev, and it cooperates closely with international organizations. The stability of its future development remains open, however. Kyrgyzstan's geostrategic importance has increased since the United States withdrew its troops from its base in Uzbekistan in the wake of the crackdown in Andijan.

In Uzbekistan itself, international financial institutions have either halted their support for lack of reform (IMF) or practically frozen it (European Bank for Reconstruction and Development). The country is engaged in multilateral forums in the Central Asian context (e.g., Shanghai Cooperation Organization, institutions for water management). But fed by its self-perception as a powerful political and military factor in the region, the country is selective in its foreign policy and sometimes confrontational toward its neighbors. Turkmenistan's foreign policy is also selective. Moreover, it largely refuses multilateral cooperation. On the other hand, it definitely fosters political and especially economic contacts on a bilateral level.

Conclusions

No new dynamic of transformation toward democracy will emerge in the CIS and Mongolia region during the period that the BTI 2010 will examine. Even the region's most important—and currently foreseeable—domestic political event will not trigger this: President Putin's announced retirement from office in accordance with the constitution. To be sure, it is now almost impossible to anticipate which faction will appoint the next president after the 2008 election and how this will affect the balance of power among these competing factions. However, the basic principles of Putin's "guided democracy" will likely remain unchanged: a strong central state, tight verti-



cal powers, a dominant executive branch, controlled media and a constrained opposition.

Economic development will continue to be supported by robust growth that will keep feeding self-confidence. Russia's energy policy will continue to define the scope of action for every country in the region apart from Kazakhstan, with the Baku-Ceyhan pipeline enabling Georgia and Azerbaijan to be less dependent than Belarus, Ukraine and Moldova. The Central Asian states are in Russia and China's gravitational field—economically and, increasingly, politically as well.

Drastic changes in the political system should not be expected in Kazakhstan, either. The jockeying to succeed its current leader, President Nazarbayev, lost its urgency after he was permitted to pursue another term. However, if Kazakhstan becomes more integrated in the OSCE through its quest for the chairmanship in 2009, this could lead to improvements in such areas as the separation of powers and the representation of social interests.

Serious political change—much less steps toward democratization—is also unlikely in Azerbaijan, Tajikistan, Turkmenistan and Belarus. In Azerbaijan, the presidential election in fall 2008 will at best provide information about how willing the regime is to accept minimum democratic standards. The positions in the Karabakh conflict still appear to be frozen. In Tajikistan, President Rakhmonov continues to shore up his autocratic rule, backed by a small, loyal circle, by citing the need for stability in a delicate environment.

Turkmenistan's new President Berdimuhammedow appears to be pursuing a cautious policy of opening up. He is undertaking some revisions in such areas as health and education policy, which has recently been disastrous. At least in the short term, though, the system will not change in any fundamental way. And in Belarus, the short phase of oppositional unity that followed the integration of the symbolic figure Milinkevich into a collegial group of leaders seems to be over. This takes some of the pressure off President Lukashenko, who is unlikely to be moved to reorient his foreign policy by the friction with Russia over record-high energy prices. It is also unlikely that Putin's successor will put more pressure on his neighbors.

Critical phases and important opportunities to set a course are imminent in Armenia (presidential election), Kyrgyzstan (constitutional reform and power struggle), Ukraine (parliamentary elections and power struggle) and Uzbekistan (the question whether President Karimov will stay in office, and if not, who will succeed him). The risk of violence breaking out appears highest in Kyrgyzstan and Uzbekistan. Overall, the critical cases exemplify a weakness of the entire region: the insufficient stability of institutional mechanisms. This is why precisely elections and a change of government can bring about brief, intense system crises, again and again, in the entire region.

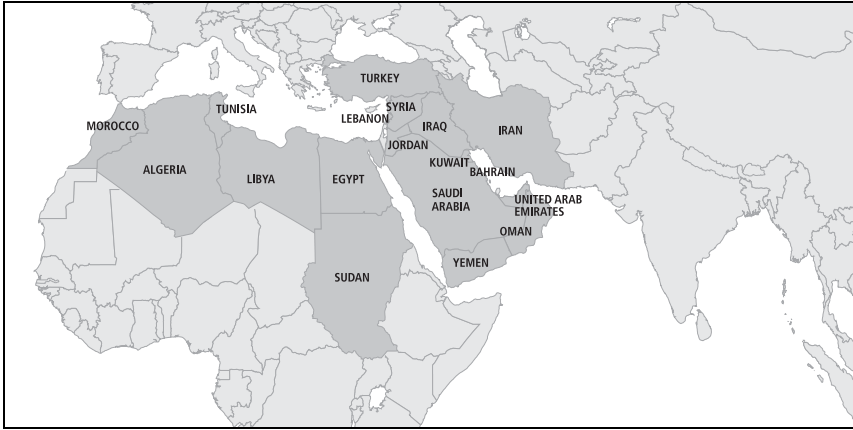
At present, the social basis needed to mobilize democratization is still lacking. First, steps toward assuring the rule of law would need to be taken. This is most likely to be around the corner in those countries that are key to the EU Neighborhood Policy: Armenia, Georgia, Moldova, Ukraine and—in the medium to long term—Belarus.

The economic upturn will probably continue until 2009. Growth rates should range from six to ten percent, with the gas- and oil-producing countries Azerbaijan and Kazakhstan trending more toward the upper margins. As in other parts of the region, though, the challenge here is to exploit growth for structural reforms and to ignite additional economic engines along with the few that already exist. At the moment, every country in the region is more or less vulnerable to price fluctuations.

Some of these countries are threatened by the “dutch disease,” that is, a hard landing if the construction boom ends or the energy engine goes bust. All of them need reform, albeit to different degrees, in creating stable institutions, healthy capital markets and transparent rules. They also require cautious fiscal policy together with greater investments in education. Finally, there are formidable challenges in the fights against corruption and poverty. The circle of those who benefit from growth must expand and the prosperity gap must narrow. Otherwise, pressure due to social disaffection will increase in the medium term.

Middle East and North Africa

An overview of development and transformation in Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Kuwait, Morocco, Oman, Saudi Arabia, Sudan, Syria, Tunisia, Turkey, United Arab Emirates (hereafter: UAE) and Yemen.



Once again, countries in the Middle East and North Africa have failed to produce sustainable and far-reaching reforms. This assessment comes at the end of a period that began with high hopes for an “Arab Spring.” Several events sparked hopes that enduring political liberalization could take root in the region. These include the departure of the Syrian army from Lebanon and the parliamentary elections that immediately followed; the recognition of a woman’s right to vote in Kuwait in May 2005; and the cautious opening of the political arena in Egypt in the runup to the 2005 parliamentary elections. Yet these hopes were soon proved premature. Reforms either failed to spill over to other sectors and countries, or, as in the case of Egypt, they remained temporary and were eventually rolled back.

The political practices of the past continued during the period under review throughout the region, with the exception of Turkey, which continues to strive for EU accession, and Lebanon. In short, neopatrimonial and authoritarian governments have continued to pay lip service to political reforms. However, especially in the case of the latter, they have used authoritarianism to consolidate and preserve their power by channeling pressures for political reform into specific areas. This is expressed in the BTI’s transformation status of democracy for the entire region; in comparison with the 2006 figures, this value has changed by only 0.2 points, from 3.95 to 3.97.

In recent decades, the overwhelming majority of Arabic ruling elites have managed to shut down all secular opposition through recourse to a number of different strategies, from containment through inclusion to repression and confrontation, even to uncompromising persecution and elimination. During the period under review, however, religious Islamist anti-government movements have become increasingly

powerful. This can be explained in part by the impotence of political and economic subsystems to ensure what David Easton has referred to as the socially binding allocation of values and goods (Easton 1965). It can also be explained by the fact that Islamism, as Ruf accurately notes, serves as a “mobilizing and unifying ideology for the growing masses of those losing out in the context of modernization” (Ruf 1999: 283).

In contrast to the primarily cosmetic reforms in the political arena, from 2005 to 2007, the majority of Arabic ruling elites have undertaken or at least envisaged highly ambitious market-oriented reforms. This is especially the case with the UAE, which in the last two years has accomplished an impressive measure of transformation; in comparison with the BTI 2006, the UAE jumped up 22 ranks, thanks to an improvement of 84 points.

Despite clear progress in Tunisia and Lebanon, and slight improvements in Egypt, Jordan, Yemen, Algeria and Saudi Arabia, the average (4.12) 2008 score for transformation management in the region remains almost exactly the same as that of 2006, reflecting the regression of other states in the region. It is therefore not surprising that practices of state intervention have barely changed at all; a large number of governments continue rent-seeking behavior in natural gas- and oil-producing countries, despite impressive rates of growth.

The area between Tétouan, Damascus and Muscat exemplifies the limited explanatory power of the modernization theory inspired basic paradigm, which postulates a causal relationship between economic reforms and democratic development. Against this background, the provocative thesis formulated by Przeworski and Limongi in 1997, in which they asserted that the role of political actors in liberalization and democratization is much more meaningful than previously believed, cannot be overestimated (Przeworski and Limongi 1997: 176). Indeed, we have seen how political paths of development in societies with a history of weak or nonexistent civil societies are inevitably bound to the fate of their political elites.

The elites are to be held responsible for the fact that little has changed in the fundamental structure of political systems during the period under review. Authoritarian-corporatist presidential republics are pitted against monarchies or emirates. They are complemented by the nominally democratic Libya, although the country is actually controlled by a revolutionary leadership; the conservative clerical institutions in the Islamic Republic of Iran and the civil-war-torn and foreign-dominated Iraq; Lebanon’s consensus democracy, based on confessional power-sharing; as well as the parliamentary Republic of Turkey, which is based overwhelmingly on fundamental democratic principles.

Transformation status: democracy

The state’s monopoly on the use of force, one of the central prerequisites for the proper functioning of the rule of law, has remained generally unchanged in comparison to the previous assessment period for the states in the region. Although a major-

ity of the states can still resort to a well-established monopoly on the use of force, there has been little observable change in Algeria, Lebanon and Iraq.

The extra-parliamentary opposition in Algeria has lost ground from 2005 to 2007, due mainly to state repression, and the opposition increasingly recognizes the authority of the state, as the case of the Imazigh illustrates. However, in the difficult-to-control south of Algeria, the Islam-oriented “groupe salafiyyste de predication et du combat” (GSPC) has managed to build a powerful, 800–1,000-man strong terrorist organization that is imminently prepared to commit acts of violence. The GSPC, renamed al-Qaeda in the Islamic Maghrib (AQIM) since the beginning of 2007, has limited its activities primarily to Algeria, engaging in small-scale, concerted terrorist attacks meant to target the government. Despite massive advancements, the Algerian regime has not been able to effectively fight this group and prevent the increasing recruitment rate in Morocco and Tunisia, which shows that the GSPC is waging its armed conflict on a transnational scale.

Although Israel continues to occupy the Shebaa farms in southeast Lebanon, the Lebanese government’s range of options has temporarily improved since the departure of the Syrian army and the parliamentary elections that followed. This partial improvement went hand in hand with the repression of Hezbollah’s military influence in the south in accordance with the implementation of U.N. Resolution 1701, which was passed during the July War of 2006. However, the government and Lebanese security forces do not yet have a full monopoly on the use of force. There are two reasons for this: First, Hezbollah continues to control the Shi’ite-dominated suburbs south of Beirut, and second, numerous new Palestinian refugee camps built since the end of 2006 are surrounded by violent Palestinian factions.

Despite the continuing conflict in Darfur, the situation in Sudan has at least improved to the degree that the signing of a peace treaty in southern Sudan in January 2005, as well as the Eastern Sudan Peace Agreement of 14 October 2006, averted the country’s collapse for the time being; the central state, including the south Sudanese government, could be able to maintain its partial yet fragile control over the country.

In contrast to Sudan, the Iraqi government has not managed to assert its monopoly on the use of force. Instead, Iraq remains dependent upon the foreign coalition troops. From 2005 to 2007, however, these troops were unable to prevent the country from sinking into an almost unstoppable spiral of terror and violence and a further erosion of national identity.

With the exception of Lebanon, in which there are 18 recognized religious communities, and secular Turkey, all of the states in the Middle East and North Africa have Islam as the official state religion. There is no clear division between state and religion; numerous governments, such as the Moroccan royal family and the Iranian clerics, derive their legitimacy directly from Islam. Jurisprudence in several states has incorporated numerous elements of previous colonial administrations, such as in Tunisia, while the machinery of state is oriented toward secular principles in its daily work. Shari’ah law is the central, if not the only, source of legislation in many

countries, forming the sole basis of law in Kuwait, Saudi Arabia, Iran, Yemen and North Sudan.

The ubiquity of Shari’ah law is problematic in the context of civil rights and has perpetuated discrimination against citizens or minorities along religious, ethnic and gender lines, especially in the Middle East. This applies, for example, to the 300,000 Bahai in Iran, who have been stigmatized as heretics and have been deprived of their civil rights; this also applies to millions of guest workers in the oil- and natural gas-producing monarchies along the Gulf.

There are regular parliamentary and presidential elections and referenda in all of the states within the region. With the exception of Turkey, Lebanon, and Iraq after the fall of Saddam Hussein, however, these elections are more or less rigidly controlled and serve to reaffirm the ruling government or current head of state, to reward parties that are friendly with the government, or—as in countries like Oman, where political parties are prohibited—to promote independent candidates. Changing the government through the electoral process is therefore not always possible.

Table 1: Transformation status: democracy; BTI 2008

	Defective democracies	Highly defective democracies	Moderate autocracies	Autocracies	
	(< 8 to 6)	(< 6)	(> 4)	(< 4)	Failed states
Republics	Turkey Lebanon ▲		Egypt Algeria	Tunisia Yemen ▼ Syria Sudan	Iraq
Monarchies			Bahrain Morocco Kuwait	Jordan ▼ Oman United Arab Emirates Saudi Arabia	
Other				Iran Libya	

Note: The table corresponds with BTI data. Countries are listed in order of their democracy scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

Since 1981, President Mubarak of Egypt has been the only candidate in presidential elections, and his tenure was confirmed by a country-wide referendum in each presidential election. In September 2005, however, there were 14 other presidential candidates who, because of numerous legal hurdles, were unable to prevent Mubarak’s reelection with 88 percent of the vote. The parliamentary elections that followed two months later, with only 26.2 percent of the voting population participating, took place for the first time under judicial supervision and the watchful eye of several civil society organizations.

Nonetheless, this did not affect the National Democratic Party's (NDP) domination of the political process; the NDP emerged as the clear victor, and the percentage of votes cast for the few permitted secular liberal parties, as well as the parliamentary representatives of Copts and women, declined. On the other hand, there are 88 seats that have been won by the independent opposition candidates, although these candidates actually belong to the Muslim Brotherhood. The gains made by these candidates prompted the government to end its careful course toward reform and renew its policies of repression, which have their roots in the 1990s.

In Bahrain, the parliamentary elections exercised no influence over the composition of the government, which was instead selected by the king himself. The elections held in November 2006 did not change anything in the distribution of power, which has remained largely the same for years. The elections deserve mention only because all of the important political powers in the country participated, even those that had boycotted the parliamentary elections of 2002.

Although the emir of Kuwait appoints the prime minister and the cabinet, the 65 members of the National Assembly have some legislative competencies. Women were allowed to actively participate in the elections for one of the 50 seats up for election in April 2006, yet not a single female candidate won a seat. The right to vote remains out of reach for numerous Kuwaiti citizens. This is also the case in the UAE. In the elections of December 2006, the first of a series of votes held to elect the Federal National Council, in which over half of the seats were on the ballot, only one percent of the entire population had the right to vote.

In addition to the ostensibly competitive presidential elections of 2006 in Yemen, in which President Salih emerged as the clear winner, Yemen and Saudi Arabia both held their first local elections. Saudi Arabia's local elections, held in spring 2005, represent a novelty in the country's history, which had thus far remained "unsullied" by elections. Women were completely excluded from the electoral process. Furthermore, only 50 percent of the local councils were up for election, and these were politically insignificant anyway.

In June 2005, and for the first time since the establishment of the Islamic Republic, there were two rounds of elections held in Iran for the office of the president. In contrast to the parliamentary elections in 2004, the presidential elections were largely free of manipulation by the Council of Guardians and revolutionary leaders. A high turnout of more than 60 percent led to the surprising defeat of the former state president, Ali Rafsanjani, who, with just over 38 percent of the vote in the second round of voting, lost decisively to Mahmud Ahmadinejad. Nonetheless, Rafsanjani managed to make some progress against the radicals surrounding Ahmadinejad, both in the relatively free elections in the city and regional councils and in the December 2006 elections (sanctioned by the Council of Guardians) to the Assembly of Experts, which appoints the "Supreme Leader."

The four rounds of the Lebanese elections were the first since the outbreak of civil war in 1975 that did not take place under Syrian influence; instead, more than 100 international election observers were present to monitor the elections. While the anti-

Syrian opposition under the leadership of the Sunni Future Movement party was able to achieve an absolute majority, a true multiparty system could not develop since most of the parties only had temporary party tickets or were strongly oriented toward specific political personalities.

The same goes in a certain sense for Iraq, in which voting for the transitional parliament in January 2005, as well as in the free parliamentary elections in December 2005 under the auspices of the new constitution of October 2005, was determined primarily by ethnic or confessional loyalties. Whereas the January elections felt the impact of the Sunni population's boycott and massive voter intimidation, the December elections saw an extremely late start for the electoral campaigns and irregularities in voter registration.

Transformation status: market economy

The states in the Middle East and North Africa share one thing in common. After years of import substitution, domestic orientation and state intervention, as well as a brief period of socialist planned-economy development strategies in Algeria, Libya, Sudan, Syria and Yemen and other countries, all of the countries in the Middle East and North Africa are committed to a more or less strongly defined (state) capitalist paradigm.

Although the economic and political change of course has been different at different times, the causes are typically identical: a mix of mismanagement, crop failures, scarcity of consumer goods and food due to one-sided concentration on oil revenues, consistently climbing population growth and inflation rates, inefficient use of capital resources, and growing indebtedness to foreign countries. These have all contributed to a situation in which numerous regimes, with the help of the International Monetary Fund and the World Bank, have created structural adjustment programs and market economy reforms, as well as liberalization and privatization measures. In the UAE, this has led the country to set a course for the diversification of its economic system.

In comparison to the previous BTI review period, reforms in all of the region's states are tied to the rise in the Human Development Index as well as further macro-economic stabilization. In other words, the same development trends in economic transformation identified in the BTI 2006 have continued over the last two years, which is also reflected in the BTI 2008's market economy status. With the exception of Syria, Sudan, Iran and to some degree Bahrain, all of the states within the region were able to make progress in the creation of a fully functional economic system. The strongest changes were observed in the following countries: Turkey (2006: 6.79 points; 2008: 7.29 points); Saudi Arabia (2006: 5.43 points; 2008: 6.00 points); Libya (2006: 5.00 points; 2008: 5.50 points); Algeria (2006: 4.61 points; 2008: 5.18 points) and Egypt (2006: 4.46 points; 2008: 5.36 points).

Still, this change was not combined with the dissolution of clientelistic ownership structures, the creation of real private sectors and a sustainable decrease of high

Table 2: Development indicators, Middle East and North Africa

	Human Development Index 2006	Population growth 2006 (in percent)	Literacy (in percent), 2006	GDP (in billion US\$), 2004	GDP per capita (PPP, in US\$), 2004	GDP growth (in percent), 2006	Inflation (in percent), 2006	Foreign direct investment as percent of GDP, 2006	Gini coefficient
Algeria	0.728	1.216	69.9	84.6	6,603	5.6	3	1.0	35.3 (1995)
Bahrain	0.859	1.392	86.5	11.0	20,758	7.6	3.5	–	n/a
Egypt	0.702	1.721	71.4	78.8	4,211	5.7	6.5	1.6	34.4 (2001)
Iran	0.746	0.663	77.0	163.4	7,525	5	15.8	0.3	43.0 (2003)
Iraq	–	2.618	–	–	–	2.4	64.8	–	n/a
Jordan	0.760	2.412	89.9	11.5	4,688	6	6.3	5.4	38.8 (2004)
Kuwait	0.871	3.561	93.3	55.7	19,384	8	3	–	n/a
Lebanon	0.774	1.198	–	21.8	5,837	–5	4.8	1.3	n/a
Libya	0.798	2.262	–	29.1	–	8.1	3.1	–	n/a
Morocco	0.640	1.528	52.3	50.0	4,309	6.7	2.8	1.5	40 (2005)
Oman	0.810	3.234	81.4	24.3	15,259	6.6	3	–0.1	56.0 (2003)
Saudi Arabia	0.777	2.06	79.4	250.6	13,825	5.9	1.9	–	n/a
Sudan	0.516	2.082	60.9	21.1	1,949	9.6	9	7.2	n/a
Syria	0.716	2.244	79.6	24.0	3,610	2.9	8	1.1	n/a
Tunisia	0.760	0.989	74.3	28.2	7,768	4	4.6	2.1	40 (2005)
Turkey	0.757	1.04	87.4	302.8	7,753	5.2	9.8	0.9	42 (2003)
UAE	0.839	2.0	77.3*	104.2	24,056	7.8**	5.4***	–	n/a
Yemen	0.492	3.461	–	12.8	879	3.2	14.8	1.1	33.4 (1998)

Sources: Human Development Report 2006; CIA: CIA World Factbook

* = Value for 2003;

** = Heritage Foundation: Index of Economic Freedom;

*** = Average for the period from 2003 to 2005.

unemployment rates. From 2005 to 2007, official estimates of the unemployment rate have hovered between 12 percent (Iran) and 20 percent (Lebanon), which presents enormous challenges in both economic and political systems. Only Kuwait and the UAE, which import much of their labor forces, are unaffected by this dynamic.

Although private property is formally guaranteed, states continue to intervene and obstruct the development of underdeveloped private economic initiatives. This practice has negatively affected the stagnant labor markets in a majority of the states in the Middle East and North Africa, and thereby also perpetuated the informal sector. This has also led to the entrenchment of bloated administrative structures, which many governments use as an instrument to encourage loyalty.

The liberalization of foreign trade observed in the last review period, has continued. Despite the growing nets of bilateral trade agreements with the European Union and the United States, a true integration in the global economy has not taken place. This explains the weakness of the banking and finance sectors; with the notable exceptions of the well-developed Gulf monarchies, Jordan and Morocco are the only countries that have shown progress related to the Basel II framework for capital standards.

The three Maghreb states—Algeria, Morocco and Tunisia—belong to a group of countries that have instituted restructuring programs with the help of the Bretton Woods institutions over several years (Schumacher 2004). In Algeria in 2006, a new package of laws was adopted that eased the creation of private enterprises, initiated social and economic agreements, and, in accordance with the Euro-Mediterranean Association Agreement with the European Union, either removed or gradually reduced numerous tariff and non-tariff trade barriers. Both foreign and domestic trade, however, do not run in strict conformity to economic principles and continue to suffer under the shadow economy.

Even though Morocco has further reduced its external tariffs and, in addition to its association agreement with the European Union, has entered into a free trade agreement with the United States, the informal sector continues to employ nearly half of the nonagricultural workforce. In 2006, the newly created regulatory agencies convened and sold off more of the state's assets in the telecommunications firm, Maroc Telecom. The tobacco monopoly was extended to 2010; royal control of the oil, milk and sugar markets was upheld; and thorough economic diversification had a negative impact on the agricultural sector.

In contrast, WTO member Tunisia recently achieved “newly industrialized country” status and, according to the World Economic Forum, is the most competitive economy in the African and Arabian region. In 2006, state holdings in Tunisia Telecom were sold off, and debt and budget deficits were reduced. This progress was overshadowed by far-reaching corruption, strong protectionist tendencies and over-regulation, as well as systematic political repression.

Despite a few steps toward reform in Syria, such as the decision to allow private banks to create capital market agencies and to reduce the peak tariff rate from 255 percent to 65 percent, the country has made no progress worth mentioning in the creation

of a free market economy. Furthermore, Syria suffered trade losses because of political developments in the neighboring countries of Iraq and Lebanon.

The economic systems in Iran and Libya could not shake off the structural imbalances that have been affecting their economies for years. At the same time, there have been visible steps taken in both Iran and Libya to mitigate the dominance of the public sector, create economic structures and introduce free competition.

In Iran, the Supreme Leader announced the necessity of a thorough privatization program and changed Article 44 of the Iranian Constitution, which now permits the sale of a portion of state-owned enterprises in sectors classified as strategic. The first steps have already been taken; 80 percent of industries outside of the hydrocarbon sector, as well as few other key sectors, have been privatized. This occurred in the context of increasingly severe economic sanctions meant to deter Iran from its nuclear ambitions, which have profoundly affected the economy.

While Libya's financial sector remains extremely underdeveloped and centralized, a series of privatization programs, initiated by former "prime minister" Shukri Ghanim and continued by revolutionary leader Qadhafi, sold 66 of the 216 state-owned enterprises slated for privatization by mid-2006. Additionally, numerous agencies have been created to supervise the envisioned economic reform process. This occurred under the auspices of an internationally praised diversification strategy that generated a gross domestic product growth rate of 4.5 percent, exclusive of hydrocarbon production. In light of the lifting of all international sanctions against Libya, foreign trade was heavily deregulated, and the "Investment Act 5/1997," a prohibition against private investment of foreign capital, was modified.

Progress toward a market economy in Sudan and Yemen has been limited, regardless of IMF-steered reform programs. There is no sufficient institutional competition framework; rules governing market access remain unequal, and monopolies and cartels continue to expand without any resistance. Foreign trade is overwhelmingly deregulated; in Sudan, there has been a noticeable increase in foreign, especially Chinese and Arabic, direct investments in the oil, construction and transportation sectors.

In both Lebanon and Jordan, fiscal and debt policies are quite serious, aiming to create an investment-friendly climate and create economic growth. In Jordan, the disruption of free oil deliveries from Iraq has aggravated budget deficits. Nonetheless, consistently high rates of growth, continuing liberalization of foreign trade and progress in the public (service) sector, and greater transparency in transaction processing all indicate that Jordan has continued on its historical course.

Positive developments in Lebanon, such as the acceptance of a new consumer protection law and the creation of regulatory agencies, are counterbalanced by such factors as inefficient administrative structures, insufficient anti-monopoly regulations and excessive credit financing by the state for reconstruction purposes in the wake of the July War of 2006. The war is responsible for the government's massive increase in spending, expectations of negative growth and the state's decision to limit its privatization measures.

Egypt continues its economic reform course of the last few years, further liberalizing foreign trade so that the average tariff currently hovers around 6.9 percent. As the neoliberal agents of reform surrounding Prime Minister Nazif have seen their influence grow, several reforms have been initiated that affect foreign exchange and competition regimes, the public sector, capital markets and the guarantee of property rights. At the same time, the government has not managed to take meaningful, sustainable steps toward the reduction of poverty, nor has it managed to contain state debt and budget deficits.

The oil-producing monarchies in the Gulf occupy a unique position within the region, since they all have established liberal economic systems that are based on highly developed private financing and banking sectors, as well as highly liberalized foreign trade regimes. During the period under review, however, the ruling families have made use of their monopoly on intervention, and nothing has been changed in the informal monopolies and oligopolies. Furthermore, all of the states are dependent upon the hydrocarbon sector in different ways, which, given the high price of oil in 2005 and 2006, has resulted in record growth.

The United Arab Emirates, where GDP during the period under review grew 60 percent, continued to implement ambitious economic policies, which are based upon the liberalization of domestic and foreign trade. There was significant progress in the ongoing diversification of the economy and the accompanying liberation of (scarce) resources, including the opening of the telecommunications sector (which has always been subject to state pressures) and the aggressive expansion of the tourism market.

A similar development is underway in Kuwait, which has profited from high oil prices. Thanks to this growth, the ruling family has had little cause to implement further economic reforms, although reform is urgently needed to address the current restrictive import regulations, the high incidence of nepotism and the swollen public sector.

In Oman as well, the state is the most important economic actor, and anti-cartel legislation is weak. In light of record GDP growth of 21.7 percent, the implementation of a seven-year plan began in early 2006. The top goal of this program is the diversification of the economic system. Legislation was also introduced that would improve conditions for domestic and foreign investors, and it was decided that for the time being, Oman would not participate in a currency union with the Gulf Cooperative Council.

The economic development of Saudi Arabia during the period under review was defined by the profits resulting from high oil prices, admission to the WTO in November 2005, the partial privatization of the national insurance company, the absence of structural reforms and the failure to implement formal mechanisms for the stabilization of the budget. In contrast, in 2005, the Bahrainian economy was classified by the Heritage Foundation as the most free in the Middle East; in 2006, it was reclassified as the second most free economy.

Bahrain had a year of record growth in 2006, with a growth rate of nine percent outside of the hydrocarbon sector. Even if the country continues to be dependent on

oil earnings, this growth can also be attributed to the successful implementation of reforms in the financial services sector, as well as the recent privatization of the bus network and telecommunications sector. While the Bahrain Monetary Agency was transformed into a central bank, the outsized public sector, which provides employment to 90 percent of Bahrainis, remained untouched.

The states in the region have continued their long history of currency stability policies, although with extremely varying levels of success. While Turkey continues on the path toward fiscal consolidation and was able to bring the inflation rate down into the single digits, Libya followed its course of strict state price controls to combat inflation, and Algeria and Saudi Arabia managed to reduce currency devaluation through their central banks, thanks to an ostensibly prudent currency policy.

All of the other states in the region were confronted with higher inflation rates than in the previous review period. This was caused by exploding prices for hydrocarbon products, or, as in Iraq, the weakness of the U.S. dollar and the escalating security situation on the ground there.

Environmental protection received broader attention in the media within the region, and an increasing number of governments have recognized the environment as an important theme. However, there has been no progress in the creation of renewable energy or increased environmental awareness among the population. Inequality between education expenditures on the one hand and investments in research and development on the other continues without deviation, and R&D investments are still at a very low level. While private institutions of higher education are on the rise in the Gulf monarchies, the education systems of other countries suffer from poor equipment and facilities, low quality, and mismanaged resource allocation.

Women theoretically enjoy equal rights in a majority of the region's states. When it comes to institutions of higher education, however, multiple sociocultural factors prevent women from making actual use of such rights, and, after they finish their studies, women are discriminated against with regard to advancement opportunities and salary equality.

With the exception of the Gulf states, social security systems are underdeveloped, relegated to the periphery of the ruling elite's interests, partially integrated into existing development plans, or are dealt with in only a rudimentary manner—if at all. In a few states such as Turkey and Morocco, reform plans limited in both range and scope are under consideration. Nevertheless, defective social service systems point to the existence of private, tribal or familial support networks that are eroding under the pressures of increasing urbanization, or, as in Iraq, an increasingly dangerous security situation.

Transformation management

Steering capability

Aside from a few exceptions, such as Lebanon and Turkey, and to a somewhat lesser degree Morocco and Bahrain, the civil societies of the Middle East remain underdeveloped, increasingly recalcitrant, and as is the case in Syria and Tunisia, subjected to extreme repression or co-optation (Jordan). Civil society's potential to act both as an integrating mediator in societal affairs and as an agency of institution-specific values is ignored. Some governments have exhibited an increasingly ambivalent posture vis-à-vis the existence and spread of intermediary institutions (UAE) that fulfill partially indispensable functions, especially in the social services sector, which the state either does not control at all (Sudan, Yemen) or controls in a very insufficient manner (Egypt).

Whereas Turkey has shown impressive achievements in transformation management, Lebanon's concordance democracy has struggled since the July War of 2006 and is increasingly exposed to powerful veto players that severely constrain its ability to manage transformation. Yet Turkey and Lebanon are the exceptions in the region; all other governments have consistently engaged in rhetoric proclaiming that transformation is their primary goal, while maintaining or expanding their own power monopoly at the expense of transformation.

The majority of governments in the region possess the capacity, and many also the necessary resources (the Gulf monarchies and Algeria, for example), to effectively implement reforms. The promise of a far-reaching political liberalization leading to the creation of democratic systems has also received popular support. However, political decision-makers in these countries pursue long-term measures, such as the creation of transparent, pluralistic structures under the rule of law, only insofar as they do not endanger the governments' sources of power.

Reforms in the economic sector have been formulated and implemented significantly faster. The Gulf monarchies and Tunisia have shown flexibility in their policy learning and apply the long-term, forward-looking development plans that form the basis of their reform steps. As in Egypt, Morocco and Jordan, however, such reforms depend heavily on governments appointed by the head of state, which typically leaves clientelistic networks in place at the microeconomic level.

Even though the governments of the Gulf monarchies base their power on patronage networks, they are able to utilize their resources much more efficiently than other states in the region. Saudi Arabia, however, is an exception, as the cabinet remains incapable of deciding upon individual reform strategies in a collegial manner. According to Transparency International's Corruption Perception Index 2006, the UAE, Bahrain and Oman have worsened somewhat. In regional comparison, however, they remain the leaders in the fight against corruption; their relatively advanced legal frameworks, as well as their implementation of measures to safeguard integrity, are the best in the region.

During the period under review, Oman convicted several high-ranking government officials of corruption and sentenced them to imprisonment. In Bahrain, the public bidding process was made more transparent, and ministries and government agencies had to submit to audits for the first time. The so-called “Bandargate” scandal at the end of 2006, named after the British author of an investigative report that accused a high-ranking Bahrainian government official of attempted election fraud, ended when the monarchy put a quick stop to things and the highest court of the land prohibited any further inquiries into the matter.

In Yemen and Algeria, there were some positive developments worth noting. Both countries began drafting anticorruption laws in 2006, although both lack the political will to apply such laws and, like other states, cannot stop endemic, rapidly worsening corruption.

Table 3: Quality of transformation management, BTI 2008

Successful management	Successful management with weaknesses	Management with moderate success	Weak management	Failed or nonexistent management
(10 to 7)	(< 7 to 5.6)	(< 5.6 to 4.3)	(< 4.3 to 3)	(< 3)
	Turkey	United Arab Emirates ▲ Jordan Oman Tunisia Bahrain Morocco Lebanon ▲	Egypt Yemen Kuwait Algeria Saudi Arabia Libya	Sudan ▼ Iran ▼ Iraq Syria

Note: The table corresponds with BTI data. Countries are listed in order of their Management Index scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

Consensus-building

Most states are characterized by the existence of a thorough consensus among the most important political and social actors about the implementation of administrative, political and economic reforms. There is also wide acceptance among the population in respect to establishing democratic systems. Yet there are noticeable, grave differences when it comes to the scope of possible reforms and somewhat rudimentary understandings of democracy. As in Egypt, there is widespread agreement among the technocratic elites that economic liberalization measures should take precedence over political reforms, which continue to encounter resistance from security forces, secret services and the old guard.

With the exception of a few marginalized groups, the Al-Saud family’s claim to power is recognized throughout Saudi Arabia. The same applies to the sultan of Oman,

the National Federal Council of the UAE, and the Moroccan royal family; all of these rulers can rely more or less on the explicit support of their societies.

Although Iran's political system is characterized by factional politics, in the wake of the Iranian revolution, Ayatollah Khomeini managed to set in motion a dynamic facilitative of consensus- and identity-building. Despite all of its inherent contradictions, this strategy continues to be effective and has aided stability to the present day.

Because of inequalities in the composition of Jordan's population, which is 40 percent Transjordanian and 60 percent Palestinian, the Hashemite monarchy's legitimacy and claim to power is much more fragile. Against the background of an obvious identity problem, the bombing attacks of three luxury hotels in November 2005 in Amman are a serious threat to the brittle domestic peace in Jordan. The government of Prime Minister Marouf al-Bakhit has adopted a restrictive anti-terror law, which may violate basic human rights, to confront this challenge.

In Turkey, the Islamic-influenced Justice and Development Party (AKP) government continues to pursue the course of reform that it began after its inauguration and there has been further progress toward the creation of a consolidated democracy. In its annual progress report, the European Commission certified Turkey—for the first time—as having a well-functioning market economy. Despite this encouraging news, there are large secular and republican-oriented groups in the government around Prime Minister Erdogan who remain mistrustful, fearing the encroachment of Islam and an evisceration of the Kemalist concept of the state.

Thirteen years after the war between the north and south of Yemen, the process of building domestic unity remains unfinished, and a large portion of the southern population believes that it is dominated by the north. Despite an offer of amnesty, the central government is not in a position to settle the conflict with the Zaidi rebels in the northern province of Sa'da.

In Sudan, a peace treaty signed in January 2005 allowed the National Congress Party and the People's Liberation Movement in the south of the country to reach a preliminary consensus over the creation of an autonomous, secular government of national unity. The 2005 peace accord, as well as the proposed peace treaty for Darfur in April 2006, has led neither to a real pacification of the country nor to a sustainable process of political liberalization (Schumacher 2006).

Aside from isolated and limited uprisings in economically marginalized areas, a substantial portion of the Algerian population has become apathetic and clearly alienated from the political process as well as the political leadership. During the period under review, this development was even more severe in Tunisia and Syria. The governments of Tunisia and Syria, as well as Libya, Kuwait and Iran, have managed to maintain control over social cleavages.

In Lebanon, these cleavages have become increasingly problematic since the murder of former prime minister al-Hariri in February 2005, which has led to an erosion of the government's scope of action and thus its monopoly on operations. In Bahrain, the societal consensus has become fragile and the political situation increasingly tense. The government has made several concessions to the Shi'ite community,

which constitutes 70 percent of the population, including the founding of an institute for Shi'ite studies, the inclusion of Shi'ite concepts in textbooks and investments in Shi'ite regions that have long been neglected. The Sunni minority, however, continues to systematically discriminate against the Shi'ite population. Numerous demonstrations by Shi'ite Bahrainis in 2005 resulted in restrictions on laws governing political associations and the abolition of a restrictive anti-demonstration law.

The situation is by far the worst in Iraq, where neither the political leadership nor the U.S.-led occupation forces have managed to settle ethnic-confessional cleavages and tensions or to improve the security situation in the slightest. Although ethnically heterogeneous suburbs and communities are becoming increasingly homogenized by migration—whether voluntary or prompted by death threats—the danger of a total collapse of the central state has become even more real.

During the period under review, only a few states in the region attempted to address past injustices systematically, whether in the judicial or political contexts. Only Algeria, Morocco and Iraq attempted to come to terms with their past, however problematic these efforts may have been.

Building on the 1997 El-Rahma initiative as well as the “concorde civile” initiated in 2000, President Bouteflika of Algeria completed his charter for peace and reconciliation, which offered former members of militant Islamic groups amnesty and social re-integration if they laid down their weapons. This initiative was hardly successful, as only a marginal number of militants took advantage of this offer. The initiative also institutionalized a general climate of impunity, prohibiting families whose members died in the civil war from questioning the state or state security forces regarding their role in these killings.

In Morocco, the work of the “commission nationale pour la vérité, l'équité et réconciliation,” which was supposed to investigate human rights violations committed since 1999, has been hampered by the state security apparatus. The practice of keeping the names of torturers secret, as well as investigating only those abuses that took place before Mohammed VI's ascension to the throne, has been maintained. Investigations into the cases of 9,779 victims are intended to produce compensation payment figures, but the government has failed to act on the lists provided by the commission.

In the shadow of the Iraqi Special Tribunal that investigated crimes committed under the Ba'ath regime in Iraq up to the end of 2003, the court took up proceedings in October 2005 against Saddam Hussein and 11 other high officials which ended with the hasty capital punishment of the ex-dictator and two other defendants. According to international human rights organizations, these proceedings did not meet international standards of justice, were characterized by political interference, and did not contribute to a climate of reconciliation.

International cooperation

During the period under review, a majority of the states have demonstrated an openness to cooperating with international actors. The European Union, the United States, the IMF and the World Bank are the most prominent cooperation partners, and each works closely in its policy area within the region.

While the Bretton Woods institutions reduced their role as an administrator of structural reforms and a provider of financial aid, the United States and the European Union are interested above all in deeper political cooperation and an intensification of economic collaboration. In accordance with their struggle against international terrorism, the United States has maintained pressure on the states within the region and characterized its involvement as a partner in the anti-terror coalition. In return for their cooperation, these states have been rewarded with military or economic aid, or, as in Libya, with the removal of their country from the list of states that support terrorism. Numerous governments have misused this aid, however, in order to further limit political freedoms and civil liberties in the name of fighting terrorism. Governments have also used this development to oppress opposition movements, especially those that are Islamist.

During the period under review, three initiatives pursued by the United States and the European Union were committed to the initiation and promotion of democratization processes. For its part, the United States has been pursuing the Partnership for Progress and a Common Future, an initiative that originated at the G8 summit at Sea Island in 2004, and which facilitated conferences and dialogues at the ministerial level from 2005 to 2006. In contrast, Europe has pushed initiatives focusing on multilateral region-building in the southern Mediterranean region and the creation of a European-Mediterranean free trade zone within the framework of the European-Mediterranean Partnership. Additionally, since the end of 2004, the European Union has applied the so-called European Neighborhood Policy that is based on bilateralism and positive conditionality (Schumacher 2005).

In addition to the (hitherto unsuccessful) attempt to initiate democratic reform processes, the European Union and the states of the Gulf Cooperation Council (GCC) were involved in deliberations over the creation of an interregional free trade agreement, although these talks did not finish in a successful deal. In contrast, during the Turkish EU accession talks that began in October 2005, the first level of bilateral negotiations examining Turkey's compatibility with EU regulations resulted in completed agreements over Chapter 25, "Science and Research."

With the exception of the continuously integrative GCC, all existing regional and sub-regional cooperation initiatives, such as the Greater Arab Free Trade Area, the Agadir free trade zone and the Arabic Maghreb Union, are either dysfunctional or at a rudimentary level of development. Moreover, the Arab League was incapable of intervening in conflicts, above all the Israeli-Palestinian conflict, as well as the July War of 2006 between Israel and Hezbollah in Lebanon; nor could the Arab League act as a mediator between the Iranian government and the U.N. Security

Council in the worsening fight over the sanctions imposed on Iran for its nuclear activities.


Lebanon, which suffered severe damage during the July War, participated in the third Paris donor conference and managed to secure a finance package worth approximately \$1 billion for reconstruction and the implementation of government programs. The United States has also increased their Iraqi Reconstruction and Relief Fund for reconstruction projects to a total of \$38 billion. During the period under review, the international community provided an additional \$15 billion to this sum.

Conclusions

Several events in recent years have unleashed intense debate, including 9/11, numerous terrorist attacks on civilian targets in several states within the region, the publication of the Arab Human Development Reports, insoluble and escalating socio-economic problems, and the growing influence of enlightened pan-Arabic media. The necessity of far-reaching and sustainable political and economic reforms in the Middle East and North Africa has been irrevocably placed on the agenda.

This debate is not really new. In the 1970s and 1980s, the reclamation of certain state competencies and the creation of private sectors in some Arab states, unrest due to food shortages in North Africa, and the increasingly vocal demands for politi-

Result Management Index			Result Status Index		
2008	2006		2006	2008	
6.33	6.52	Turkey	6.92	7.17	
5.04	4.20	UAE	5.03	5.23	
4.81	4.68	Jordan	5.12	5.12	
4.77	–	Oman	–	5.30	
4.75	4.42	Tunisia	5.17	5.37	
4.66	4.86	Bahrain	6.21	6.01	
4.60	4.77	Morocco	4.62	4.65	
4.57	4.20	Lebanon	5.71	6.16	
4.15	3.88	Egypt	4.29	4.88	
3.97	3.87	Yemen	3.82	3.91	
3.94	–	Kuwait	–	5.20	
3.88	3.63	Algeria	4.42	4.72	
3.81	3.65	Saudi Arabia	4.00	4.36	
3.15	3.14	Libya	4.00	4.24	
2.88	3.43	Sudan	3.17	3.00	
2.80	3.17	Iran	3.98	3.96	
2.54	–	Irag	2.79	3.28	
2.47	2.85	Syria	3.63	3.39	



Political Transformation

Economic Transformation

cal liberalization that began in the 1990s culminated in the sudden opening of Algeria in 1991 and the equally sudden state coup that ended it.

What is new in the current debates on reform is both the dynamism that has gripped the societies in the region and found expression in civil society initiatives (Sanaa, Alexandria) and the noticeable increase in the interest and engagement of international actors such as the European Union and the United States. During the period under review, both have given up their nearly unconditional support for authoritarian regimes and turned to policies based on positive conditionality that reward the implementation of political and socioeconomic reforms with financial incentives and trade agreements.

The attractiveness of such incentives, however, encounters limits in the readiness of Arab elites to implement political reforms, especially when such reforms erode their access to sensitive sectors and thereby endanger their sources of power. One example of this tendency can be observed in Egypt, where a period of democratic experimentation in 2005 has been followed by an ongoing phase of repression. A similar situation has occurred in Bahrain, where a political transformation process initiated in 2001 has been slowed down since the beginning of demonstrations for far-reaching constitutional reform.

The governments of the smaller monarchies within the GCC have clearly recognized the necessity of a holistic approach to reform that combines macroeconomic reforms with (gradual) political and administrative reforms accompanied by prudent policy formation that directs high oil and gas revenues into the education and infrastructure sectors. However, these governments have also privileged putative good governance over political liberalization.

In contrast, Algeria, Iran, Saudi Arabia, Sudan, Tunisia, Syria and Libya have used oil revenues to shore up their regimes and patronage power with the targeted allocation of funds to clientelistic networks. This has been a rather bitter pill for those who prematurely anticipated a spillover effect from the short-lived Lebanese Spring of 2005 and envisioned a wave of democratization sweeping the entire Arab region. This dynamic was reflected in the marginal gain observed for the region as a whole, which showed a Status Index improvement of 0.3 points from 4.5 in 2005 to 4.8 in 2008. However, it must be pointed out that this slight improvement is primarily a result of sporadic reform measures in Libya, somewhat farther reaching democratization efforts in Iraq and Lebanon, and the inclusion of Kuwait and Oman in the BTI 2008.

It thus requires little foresight to predict that the Middle East and North Africa, despite the sporadic completion of some political reforms, will remain, at least for the medium-term, one of the central problem areas in the international system. In addition to factors already mentioned, both the set of socioeconomic problems and a lack of will among the region's regimes are to be blamed for the failure to open the political sphere and the failure to gradually integrate moderates and political Islamist movements into the political process.

Such integration would undoubtedly be the widely shared preference within these societies, as well as an initial commitment to more pluralism, which could minimize

the allure of radical movements. However, as long as members of the international community continue to base their policies in the Arabic world on fears of an Islamic takeover or social unrest—which can emerge during transformation processes—and thus continue their support of political and economic elites at the expense of the (normative) goals of democratization and a stronger civil society, deep-seated political change is likely to be merely an accidental byproduct of macrosociological or macro-economic changes.

South and East Africa

An overview of development and transformation in Angola, Botswana, Burundi, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Somalia, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.



South and East Africa, which are grouped together here as one region, are among the least developed regions considered in the BTI 2008. A closer look shows that the development of democratic conditions, however minimal in many of the region's countries, is ahead of economic development. As in the BTI 2006, the BTI 2008 provides a heterogeneous picture of development, especially with regard to the normative goals of a democracy under the rule of law and a market economy flanked by sociopolitical safeguards.

Differences in development—four of the region's states are categorized as democracies with only minor flaws—do not permit, however, a wholesale write-off of the region or the continent, as in a recent edition of *Der Spiegel* (Vol. 2, 2007), which ran the story, “Africa—the hotly contested continent.” The byline to this story, which sums up the trajectory of African democracies as “Rise and Fall: From White to Black Dictators,” is not only ahistorical—developments have been far too complex for such an oversimplification—but also obfuscatory in its misrepresentation of an exception like Zimbabwe as a dominant trend.

It is much more often the case that democratic developments in most of the countries have either continued or in some cases stagnated, or at least not deteriorated. This also applies to economic development, in which most states profit from advantageous global conditions. Some countries, although many fewer than in West Africa, have reaped windfalls from higher raw material prices. Yet there are indications that

there is a “hardened core” of autocracies in which the prospects for substantial reforms seem bleak.

Transformation status: democracy

The southern and eastern regions of Africa encompass 18 states. These states have been classified into four groups. In the lead are South Africa, Botswana and Mauritius, with their minor democratic deficiencies, such as Botswana’s problems with the rule of law.

Namibia has now joined South Africa, Botswana and Mauritius as a democracy with limited deficits (from the BTI 2006: Schmidt 2006). The transition from President Sam Nujoma to his successor, Hifikepunye Pohamba, had a positive influence on political matters in Namibia. The new president is less dogmatic, more conciliatory towards minorities and the opposition, and more willing to enter into dialogue.

Table 1: Transformation status: democracy; BTI 2008

Democracies	Defective democracies	Highly defective democracies	Moderate autocracies	Autocracies	Failed states
(10 to 8)	(< 8 to 6)	(< 6)	(> 4)	(< 4)	
Mauritius	Madagascar	Burundi ▲	Ethiopia*	Angola ▲	Somalia
South Africa	Kenya			Zimbabwe	
Botswana	Tanzania			Rwanda ▼	
Namibia ▲	Zambia			Eritrea	
	Uganda ▲				
	Malawi				
	Mozambique				

Note: The table corresponds with BTI data. Countries are listed in order of their democracy scores.

Arrows indicate movement to a higher or lower category for the BTI 2008.

* State’s monopoly on the use of force limited due to regional rebel movements.

The seven states in the following group show strong deficits. The state of democracy in Malawi and Uganda has improved considerably. While improvements in Malawi signaled more a return to political normality after a period of political instability before and after the 2004 elections than any real progress, changes in Uganda were substantial. A constitutional amendment lifted restrictions on political parties, even if the president will be able to complete more than two consecutive terms in the future.

Changes in the other states within this group—deterioration in Mozambique and slight improvements in Kenya—are not significant enough to alter the classification of these countries. Although Burundi’s democracy remains precarious, improvements within the period under review were most dramatic here; up to 2005, Burundi

was still classified as an authoritarian post-conflict state. The improvement in democracy scores resulted from the adoption of a new constitution through a referendum. The new constitution allows for power-sharing in the sense of a concordance democracy on an ethnic basis. The elections in August and September of 2005 were free and fair.

Little has changed in the authoritarian states, some of which have facade democratic institutions (Rwanda, Ethiopia). The BTI no longer classifies Angola as a post-conflict state. On the one hand, Angola's development in terms of stateness has consolidated. The civil war, which ended with a peace treaty in 2002, has not flared back up. On the other hand, there have been no elections, which has led to various declarations in defiance of the dos Santos government; therefore, Angola remains categorized as an autocracy.

The political situation has stagnated in Ethiopia, where there have been no free and fair elections and the state has waged violent reprisals against the opposition. In Zimbabwe, President Mugabe continues to lead his country toward self-destruction. In Eritrea, the closing of the country's only university and worsening repression continue to aggravate already precarious democratic conditions.

Somalia is an exceptional case, even in comparison to all of the countries under examination by the BTI. For 15 years, there has been no central state with a monopoly on the use of force in Somalia. The rudimentary elements of a functional state do not even exist. Despite the presence of a small force of African Union (AU) troops and the assistance provided by Ethiopian troops invited by the Transitional Federal Government (TFG), ongoing violence has made it extremely uncertain whether stateness can be reestablished. The emergence of the Republic of Somaliland, which has declared its independence yet not been recognized by the international community, is a positive sign of democratic practice.¹⁹

Stateness

In contrast to West and Central Africa, stateness problems are the exception rather than the rule in South and East Africa (with the exception of Sudan; see Biel and Leiße 2007). Aside from the aforementioned case of Somalia, the state's monopoly on the use of force in most of the regions' countries is largely secured, although in some regions of Kenya, Ethiopia and Uganda, rebels or criminal gangs have compromised the monopoly on the use of force. In some large African cities, such as Johannesburg in South Africa or Nairobi in Kenya, high crime rates have made the security situation rather desolate.

Although minority rights are not completely guaranteed everywhere, as in Ethiopia, there is an overall consensus that civil rights laws include all groups. Religion

19 Although Somaliland is considered in this analysis, its development is not accounted for in the overall evaluation.

plays a much larger role in the everyday life of most Africans than for Europeans, although religious dogmas or convictions have no direct influence on policy-making. Deficits in stateness result above all from weak administration. Paucity of resources and skilled labor has led to low efficiency in already rudimentary administrative structures. Weak administration impairs policy implementation as well as the successful realization of reforms.

Political participation

In the category of political participation, developments are divided between the five authoritarian states (plus Somalia) and the majority of states in which democratic principles prevail to differing degrees. The index values for the authoritarian states are clearly below the scores for the others states in all four categories.

Eritrea and Angola are the only countries where elections have not taken place in a long time. During the period under review, elections were held in the following countries: Burundi (parliamentary and presidential elections), Ethiopia (parliamentary elections), Uganda (parliamentary and presidential elections), Mauritius (parliamentary elections), Madagascar (presidential elections), Tanzania (parliamentary and presidential elections), Zambia (parliamentary and presidential elections) and Zimbabwe (parliamentary elections). The quality of these elections, however, was unsatisfactory; the elections in Zimbabwe and Ethiopia were neither free nor fair. There were also problems in the elections in Zambia, Uganda and Tanzania. There were no major problems in the other countries, although elections in Madagascar and Burundi exhibited organizational irregularities. Mauritius was the only country where elections were conducted in absolute freedom and fairness.

The most powerful veto actors in the authoritarian states are the respective governments and their security forces, which obstruct democratic development. There are significant doubts about the democratic orientation of the ruling elites and the opposition in Burundi, as well as in Uganda. Fundamental civil liberties, such as the right to free assembly and association, are systematically undermined in authoritarian systems and not always upheld in some defective democracies. Police actions against the opposition severely curtailed the freedom of assembly in several elections, including those in Tanzania, Zambia, Uganda and Mozambique.

Since media power is concentrated in the state's hands in most of these countries, the media is often instrumentalized for political purposes. Measures are often taken against "opposition elements," as private media are harassed either by the police (as in Angola and Burundi, despite improvements) or by legal maneuvers, such as accusations of slander, revocation of broadcast licenses or similar measures (as in Mozambique, Uganda, and Tanzania, especially in Zanzibar). The limited dissemination of print media, which are primarily found in the cities, weakens the media's ability to act as a watchdog. There are strong, steadfast media, especially newspapers, in Kenya, Namibia and South Africa.

Rule of law

In many of the countries considered in this analysis, there are problems in the area of rule of law, as the overall poor ratings for this criterion in comparison with political participation demonstrate. In all of the states, the separation of powers is enshrined in the constitution, but this differs in practice in the authoritarian states. The executive branch dominates the legislature and intervenes in judicial affairs.

One reason for the dominance of the executive lies in the presidential and semi-presidential character of the various political systems. The president of a country possesses great authority because he is legitimated by direct election. A great deal of state power is concentrated in his hands. Africans typically perceive politics in terms of personalities, which creates an atmosphere conducive to abuses of power.

In a few democratic countries with parliamentary systems, such as South Africa and Botswana, the executive is dominant. In these cases, the cause lies in the dominant party system. An incompetent organizational environment and extreme loyalty to the constituency in a majority vote system have led to the significant weakening of parliament's oversight function.

In numerous countries, the independence of the judiciary cannot be guaranteed. This is especially true for the authoritarian countries, but also for jurisprudence in other countries, such as Mozambique, Kenya and Madagascar. Mozambique is a special case; the president appoints high judges and thereby exercises a great deal of influence over the judicial system, government officials ignore verdicts, and material and personnel resources are scarce and lead to delays in the administration of justice. All of this makes the judicial sector susceptible to corruption.

It is therefore not surprising that in many countries abuse of office is not sufficiently penalized. Relevant policies often do not exist, and a distorted sense of justice complicates the prosecution of offenses; only a few cases actually result in convictions, as in Tanzania, for example. Even Botswana, which has received outstanding democracy scores, allows politicians convicted of corruption to return to office after a few years of being banned from holding office. The reputation of the judiciary and indeed the entire state—whether a democracy or not—is undermined by the inadequate prosecution of the abuse of office.

Civil liberties are guaranteed in the constitutions of all of these states, although they are sometimes partially limited by legislation or, as in authoritarian states, openly and massively attacked. Deficits in jurisprudence affect compliance with fundamental civil rights legislation. Infringements on these rights, by the security forces for example, are not sufficiently prosecuted, and the human rights of prisoners (as in Uganda) are frequently violated.

Stability of democratic institutions

With the exception of Mauritius, Botswana and South Africa, democratic institutions in the region's states can guarantee only limited or very limited functionality. Aside from the countries that have made decisive progress (Burundi, Malawi), there have been no major changes since the BTI 2006. Administrative shortcomings have arisen from problems such as turf battles, incompetence in the bureaucracy and the dominance of the executive, creating even further problems.

In governments ruled by authoritarian regimes, democratic institutions are accepted only in rhetorical terms and are abused in practice. The relevant actors and elites in democratic and defective democratic states accept democracy as a legitimate principle of leadership. There is no authoritarian option among the electorate or the elites in most states. Outspoken veto actors are found less frequently than in other regions in Africa. In Angola and Uganda, the military remains a potential veto actor; in Tanzania, parts of the former unity parties could become veto threats. Even if there are no clearly identifiable anti-democratic agitators, such disregard for constitutional politics on the part of individual or collective actors undermines democratic principles.

Political and social integration

Eritrea and Somalia are the only countries in sub-Saharan Africa that do not have multiparty systems. In Somalia, this is due to the state's collapse; in Eritrea, parties are forbidden and independent social groups are not tolerated. From this perspective, Eritrea is a totalitarian state.

The representative level of consolidation—parties and interest groups—is an Achilles' heel for African transformation processes. Only a few states—Botswana and Mauritius, and particularly South Africa and Namibia—have stable, socially rooted party systems. Furthermore, there is a high degree of personalization, with weak and arbitrary political objectives, as well as high fluidity (Schmidt 1997; Erdmann 1999). This can be attributed to the absence of social cleavages (church-state, capital-labor, etc.), which have been so constitutive for European party systems, where parties have developed ideological programs and affinities in response to these cleavages throughout history.

Limited industrialization throughout sub-Saharan Africa, with the exception of South Africa, has precluded the development of capital-labor cleavages. Social or social democratic parties therefore lacked a sufficient support base. The "socialist" parties of the past were collective movements of different social or ethno-regional groups. Extant lines of division running through African societies, such as center-periphery, have had little constitutive power for the party system, with the notable exception of ethnic cleavages.

As a consequence of these historical conditions, which remain relevant to this day, along with further structural factors such as the personalization of politics, most

of the party systems are weakly institutionalized. Although recent comparative studies reveal a somewhat more differentiated picture of political parties in Africa, institutionalization remains weak in intercontinental comparison (Basedau, Erdmann and Stroh 2006). Due to unstable party systems, Africa's representative democracies are standing on shaky ground.

Botswana, South Africa, Namibia, Tanzania and to some degree Mozambique exhibit a dominant-party system. In these countries, a single party retains high majorities over a longer period of time, dominating political life and to some extent social life. Despite the presence of dominant parties in Botswana, South Africa and Namibia, these three countries are by far the most advanced in terms of democratic development.

The limited degree of industrialization and limited social differentiation in many states account for the equally undifferentiated landscape of interest groups. In many countries, there are very few interest groups that are capable of exerting political pressure. Most of the extant interest groups are representatives of the raw materials industries, such as the trade unions for copper workers in Zambia. South Africa, which is half-industrialized and on the threshold of full industrialization, is an exception where there is a broad spectrum of interest groups. In Zimbabwe, traditionally strong workers' unions and civil society organizations are systematically oppressed.

Aside from formal interest groups, the level of social self-organization in the form of self-help groups remains low. For decades, authoritarian traditions of systematically oppressing all independent initiative, civil wars, low levels of development and the dominance of familial networks have crippled the formation of societal self-organization. Many of the initiatives that do exist are active primarily at the local level, and in many states these groups are highly dependent on external or state aid.

Quantitative empirical research on support for democratic principles and institutions is available for 12 of 18 countries. Representative data for the period under review does not exist for the five authoritarian states and Somalia, where authorities have prevented the collection of data out of fear that this information could delegitimize their authoritarian rule.

There is generally a high level of support for democratic principles. In almost all countries, authoritarian alternatives, especially military rule, are rejected in favor of democracy. Consent to one-party rule in Namibia and South Africa (neither state has experience with one-party rule), Tanzania, Uganda and Mozambique is quite remarkable, even if these parties never meet the 50 percent mark. A thorough analysis of the data suggests that authoritarian attitudes remain prevalent, even though they do not receive majority support. The relatively low support and enthusiasm for democracy in South Africa, the democratic beacon of Africa, is striking (www.afrobarometer.org; Bratton, Mattes and Gyimah-Boadi 2005).

Transformation status: market economy

In South and East Africa, there is a discrepancy between the development of democracy under the rule of law and the development of a market economy flanked by sociopolitical safeguards. A majority of the states have shown thoroughly positive results with regard to democratic development, even if breakthroughs have occurred with less frequency in recent decades. However, these countries are still far from realizing a functioning social market economy. Deficits are most noticeable in the following three criteria: level of socioeconomic development, welfare regime, and sustainability. Most of the countries in the region remain poor states with limited or negligible levels of development. This remains the case even though the overwhelming majority of states have achieved noteworthy economic growth and are liberalizing their national economies at a moderate pace.

Level of socioeconomic development

The level of socioeconomic development in South and East African countries is consistently low, yet it remains on average above that of West and Central African countries. The low level of development is reflected in the average score of only 2.88 for all 18 countries. The only countries that break from this trend are Mauritius, with a score of 8, and then South Africa and Botswana, each with a score of 5. The low level of socioeconomic development has also been confirmed by the UNDP's Human Development Index (HDI). With the exception of Mauritius, all of the countries in the region are in the lower third of the scale. Only five of the 18 countries were ranked higher, with Mauritius at the top.

The status of economic frameworks throughout the region differs widely. In the criterion organization of the market and competition, scores stretch across a spectrum from 8.5 (Botswana, South Africa) to 1.0 (Eritrea). The majority of the countries fall into a zone between 5 and 7.5. According to the conservative Heritage Foundation's comparable ranking, the Index of Economic Freedom, the countries of South and East Africa are considerably ahead of the rest of the countries on the continent. From an economic perspective, the first seven of Africa's most free countries—although classified as “moderately free” in international comparison—are all in southern Africa.²⁰

Change relative to the BTI 2006 has been marginal. There has been observable progress in Mozambique and Namibia. The smaller national economies tend to be strictly regimented. There has been no notable progress in regional economic cooperation in the framework of the Southern African Development Community (SADC) and the East African Community (EAC).

20 The Index of Economic Freedom, which measures economic freedom only and does not consider social or sustainability issues, is not comparable with the BTI (www.heritage.org).

Table 2: Ranking of African states in the Human Development Index

High human development	Medium human development	Low human development
Mauritius* (63)	South Africa (121)	Zimbabwe (151)
	Namibia (125)	Kenya (152)
	Botswana (131)	Eritrea (157)
	Uganda (145)	Rwanda (158)
		Angola (161)
		Tanzania (162)
		Zambia (165)
		Malawi (166)
		Mozambique (168)
		Burundi (169)
		Ethiopia (179)
		Madagascar (n/a)
		Somalia (n/a)

Source: UNDP. Human Development Report 2006, UNDP, New York.

* At the lowest level of the high-ranking countries.

Currency and price stability

Currency and price stability in the region varies widely. Tanzania and South Africa are among the countries with the highest currency stability; in Tanzania, the inflation rate is six percent, and South Africa managed to reduce its inflation rate from nine to 4.6 percent. The close linkage of the Namibian and Botswanian currency, the pula, to the South African rand brings down inflation rates. High oil prices have led to double-digit inflation in Ethiopia. Zimbabwe was a unique case, with hyperinflation at 1,200 percent in 2006 and an increase up to 5,000 percent in 2007; this was caused by excessive state expenditures to political groups supporting the Mugabe regime, as well as irresponsible domestic budget policies.

Mauritius, Botswana, South Africa and Uganda have successfully pursued a policy of macroeconomic stability. Despite remarkable macroeconomic stability and moderate inflation rates in many countries, the structural problems within the national economies have by no means been resolved. Even after numerous debt cancellations under the auspices of the HIPC Initiative (Highly Indebted Poor Countries), debt levels remain high (Tanzania, Uganda) and the ratio of tax revenues to budget expenditure remains too low. Macroeconomic stability in the region's relatively small economies—but also in the heavyweight South African economy—remains highly susceptible to external shocks.

Private property

With the exception of Somalia, property rights are guaranteed legally in all of the region's countries. However, in practice, private property rights are not respected. Questions about land ownership are an important and emotionally charged topic. Practices differ widely from country to country.

In Zimbabwe, massive state intervention in the agricultural sector continues, even after the sometimes violent dispossession of commercial farms owned by whites. In Eritrea, land access remains limited despite the existence of relevant laws that have been on the books since 1996. Inefficiency and corruption restrict the sale and ownership of land in Tanzania. Problems are also caused by the coexistence of communal land and private use, since the traditionally certified right to land use frequently collides with private demands, as in Uganda.

Although private enterprises are permitted in all of the region's states, state ownership in businesses remains high, especially in the service sector (electric companies, transportation, etc.) and the extractive industries (Botswana, Angola). In some countries, oligopolies have purchased former state monopolies after privatization. The privatization process has made little progress in most countries, with the exception of Zambia and Tanzania. Entrepreneurs with government connections are typically the profiteers of privatization, as in Angola.

Welfare regime

The low level of socioeconomic development in most of the region's countries is also paralleled by the extremely weak social safety nets; it is only in Mauritius, South Africa, Botswana and Namibia that one can speak of rudimentary service provision. State services are frequently only guaranteed for state employees and those employed in the formal sector. The health and benefits systems in southern African countries and in Uganda are overwhelmed by the number of AIDS patients; in some countries, up to 30 percent of 15- to 49-year-olds are infected.

Aside from Mauritius, South Africa and Botswana, the countries are not in a position to substantially reduce widespread poverty on their own. Large parts of the population—in Ethiopia, almost half the population—live on less than one U.S. dollar per day. Despite all of its attempts, South Africa still has not managed to create a breakthrough in AIDS policy. Botched policy implementation and halfhearted, contradictory government policies are responsible for the number of infected staying consistently above five million. By 2004 in Uganda, however, the government had managed to reduce the rate of infection from 18 percent to around six percent. In addition, Kenya has reported success in bringing down the percentage of infected to approximately seven percent.

There is little equality of opportunity for women, minorities and ethnic groups in many countries, although such rights are constitutionally guaranteed. Access to edu-

cation and employment depends on gender—women are traditionally discriminated against—and often on social class as well as ethnic heritage.

Sustainability

The very low average scores for environmental sustainability as well as education and research demonstrate that many of these countries are ill prepared to succeed in the future, with the exception of Botswana, Mauritius and South Africa. In general, there is only cursory interest in environmental issues. Only a few countries follow principles of resource preservation. Natural treasures in the form of unique zoology and botany are often not protected against depletion, or are protected only as an attraction for tourism (Botswana, South Africa, Namibia and Mozambique).

There is little awareness about the meaning of environmental factors and a predominance of short-term economic thinking, which, in the face of low development and widespread poverty in the region, comes as no surprise. Deforestation in Kenya, Ethiopia and other countries has led to environmental problems such as soil erosions and negative effects on the agricultural sector. Ambitious legislation meant to address these problems often accounts to only “paper tigers,” or laws that are never enforced; when environmental policies are enforced, it is only to pacify donor countries. In some countries, such as Mozambique, donor engagement has at least ensured that environmental damage does not worsen.

Educational institutions exist primarily for primary school levels and to a superficial degree also for secondary school. In some countries, including South Africa, high education budgets have been accompanied by problems in quality. In South Africa, Namibia and Botswana, AIDS has led to growing shortages of teachers. In Zimbabwe, where for decades there was a comparatively well-developed education system, economic and political crisis has heavily eroded the quality of education.

The quality of the universities, especially with regard to the natural sciences, is low (Mozambique) or falling (Tanzania). Insufficient resources, low motivation and low pay have led to a brain drain at many universities. In Eritrea, the country's only university has been shut down. Both the academic research capacities and the institutes outside the universities are, with a few exceptions (a few areas in South Africa), extremely low and unable to compete internationally.

Transformation management

The quality of transformation management in the region shows wide disparities. The values for the top group of democracies are all over a remarkable 6.8. This group includes Botswana, Mauritius and South Africa, although South Africa has not managed a successful transformation, despite having all of the necessary resources. The

values for the authoritarian countries of Eritrea, Zimbabwe and, with a somewhat higher score, Angola, all lie at the bottom of the scale between 1.8 and 3.5.

Table 3: Quality of transformation management, BTI 2008

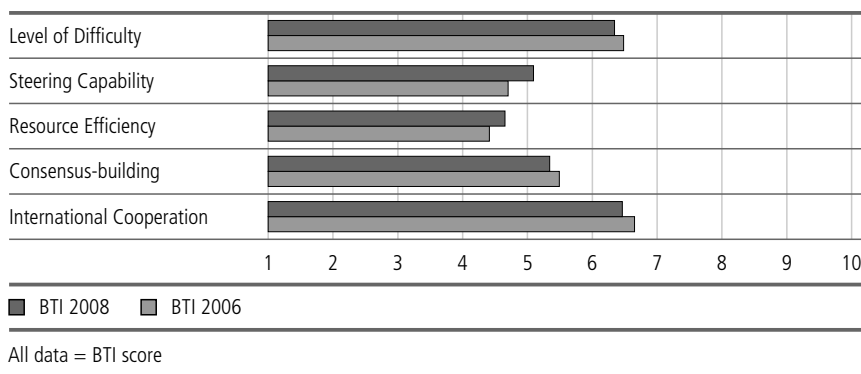
Successful management	Successful management with weaknesses	Management with moderate success	Weak management	Failed or nonexistent management
(10 to 7)	(<7 to 5.6)	(<5.6 to 4.3)	(<4.3 to 3)	(<3)
Botswana Mauritius	South Africa Madagascar Namibia Tanzania Zambia ▲ Uganda ▲	Malawi Kenya Mozambique ▼ Burundi ▲▲ Rwanda	Ethiopia Angola	Eritrea Zimbabwe Somalia
Note: The table corresponds with BTI data. Countries are listed in order of their Management Index scores. Arrows indicate movement to a higher or lower category for the BTI 2008.				

In the case of Somalia, it is impossible to speak of transformation management, since the pivotal agent of transformation, a functioning government, no longer exists. The Somalian Transitional Government, which came into power through Ethiopian military intervention, remains fragile. The rest of the states achieved only moderate management successes, with scores between 4.28 (Ethiopia) and 6.20 (Madagascar). If one compares the results of the authoritarian and democratic states, it is striking that in this region, authoritarian states are in no way capable of better management; in Asia, the exact opposite is true in some cases.

A comparison of management successes with the BTI 2006 reveals an almost identical result, since the changes in the scores occur within a narrow range. Mozambique’s transformation management was rated significantly worse, down from 6.05 in 2006 to 4.8 in 2008. President Guebuza’s government has been harshly criticized since its inception in 2005 for being more concerned with consolidating its hold on power than with furthering reforms. Burundi, on the other hand, displayed strong improvement, going from 2.77 to 4.8 during the period under review. Legitimized through free elections, the government has begun a reform program while guaranteeing proportional representation for hostile groups within the population. It remains to be seen whether the hopeful expectations regarding readiness for reform, or skepticism about reform capacity, are justified.

As the following table shows, the level of difficulty remains high, and successes regarding steering capability and resource efficiency are very low. Readiness for international cooperation is once again prevalent, which is reflected in many countries’ high level of dependence on foreign aid and support.

Figure 1: Management criteria in South and East Africa



Level of difficulty

The average score for level of difficulty is 6.3. Structural challenges are especially tough, and the socioeconomic level of development in many countries is low. It is also remarkable that civil society organizations in most of the region's countries are only weakly developed. In contrast to West and Central Africa, the values for violent conflicts are low. Guerrilla movements in Somalia, in Zimbabwe, and to a decreasing degree in Uganda continue to wage violent conflict. It would be premature to describe the situation in Burundi as stabilized. Management successes are all the more enhanced by the high level of difficulty.

Steering capability

Steering capability in the region is very low. Implementation capacities are especially problematic. There is a considerable cleavage between the announcement of programs and policy measures on the one hand and, on the other, priority-setting, implementation and actualization of these policies. This has to do with the absence of efficient administrative structures and personnel shortages of employees with management abilities, as well as a tendency to present the best possible face of reform to the international donor community in order to continue receiving international aid.

In numerous countries, it is obvious that real preparedness and willingness for economic reform is not matched by a similar reform-mindedness in the political sector. Disposition toward reform differs widely, since it is often informed by previous experience with the attempt to change policies. Outside of the top countries in the region, there is an increasing willingness to learn in Burundi, Uganda and Malawi.

Resource efficiency

Experts estimate that resources are not used efficiently in almost all of the region's countries. Only Botswana and Mauritius, followed at a distance by South Africa and Namibia, have achieved higher scores in this area. Along with technological and personnel deficits, which are often caused by conflicts over decision-making between agencies and ministries, waste and cronyism also affect scores in this category. There is also an above-average amount of corruption. Because anticorruption measures are either insufficient or simply not implemented for political and personal reasons, corruption has become almost endemic in Angola, Ethiopia, Kenya and Mozambique. Only Botswana is efficiently combating corruption, while Mauritius, South Africa and Namibia have been somewhat successful in their anticorruption programs.

Consensus-building

In most countries, there is at least a rudimentary consensus about the twin goals of democracy and a market economy. Nonetheless, one must differentiate here between rhetorical statements about democracy and actual behavior. The governments of Rwanda, Ethiopia, Angola and Mozambique are interested above all in retaining power.

In the authoritarian states, the veto actors are the government or the state leadership. In the democratic states, there are less outspoken, less visible veto actors. Because of concerns about donors and the image of the country, it rarely comes to the sort of open and unmistakable violations of democratic principles that have occurred in Ethiopia (unfair elections, repression of the opposition) and Zimbabwe. In Zimbabwe, conflict with the opposition and between the Ndebele and Shona ethnic groups have been exacerbated by power plays.

In most states within the region, there is a traditional aversion to the inclusion of civil society. The traditional understanding of the state follows from a belief in the sovereign supremacy of the government in all affairs. Corporatist structures and networked mechanisms for the resolution of serious problems are the exception rather than the rule. The European Union's offer under the Cotonou Treaty of 2000 to work together with sub- and non-state actors directly, without governmental participation, sowed distrust in many African governments.

In the democracies of Botswana and Mauritius, as well as the moderately authoritarian regimes of Tanzania and Zambia prior to 1990, the issue of reconciliation with the victims of repression has never been addressed. With the important exception of South Africa, sincere and substantial attempts at reconciliation are extremely rare; rather, these issues become taboo (Mozambique, Angola) or are actively denied (Namibia). There is a danger that unresolved collective trauma related to the worst human rights violations could undermine the legitimacy of the government or of politics in general; therefore, reconciliation remains politically relevant.

International cooperation

With the exception of the authoritarian states, which refuse to cooperate in efforts to facilitate democratization and economic development, many African states are very ready and willing to accept external aid and cooperate with neighboring states in the region. It is not surprising, therefore, that most African states are considered to be credible and dependable partners.

South Africa and Madagascar play an especially active role in regional and continental affairs through the AU and NEPAD. Tanzania, Uganda and Mozambique are very cooperative. Memberships in a whole range of subregional organizations frequently overlap and lead to friction between individual states, thereby stalling political activity. As pointed out earlier, willingness to cooperate with donor states and international organizations is frequently associated with dependence on external inflows of capital and know-how.

Conclusions

There were no massive changes in South and East Africa in comparison with the BTI 2006. The states that registered democratic successes outnumber states that either did not change substantially or deteriorated (Eritrea). This indicates that democratic procedures and thus the institutionalization of democracy is becoming the norm in many African countries. Namibia, Uganda, Malawi, Angola and Burundi all made progress in advancing democracy; Burundi shows especially positive developments. The situation in Zimbabwe remains tense. The climactic economic and social situation in Zimbabwe in 2007, which could at worst descend into civil war or lead to anomie with the collapse of social and political structures, threatens the prospects for development in all of southern Africa and has exacerbated tensions with the European Union, the region's largest single donor. Such negative scenarios could affect neighboring states in the region.

Though the peace in Angola has been further consolidated, the democratic development of the government has not moved forward. Angola is the only country in the region that has profited massively from the oil boom. In terms of economic transformation, the period of time from 2005 to 2007 was a good one for the states under review; every state showed progress, even if this progress was very uneven.

Burundi achieved massive improvements that can be attributed to a new democratic order and a very low starting point after the end of the civil war. At the time of this writing in mid-2007, it is unclear whether these positive developments will continue in the direction of democratic stabilization.

After years of slight improvements, Tanzania, Uganda, Namibia and South Africa have also profited from a favorable global economy. Further analysis would be required to ascertain how much of this growth is the result of economic reforms and increased donor assistance. Despite overall positive development, the level of eco-

conomic and social development remains low, and the progress achieved thus far will not be enough for a sustainable and substantial campaign against poverty (Kappel and Müller 2007).

In the face of the complex dynamics of African societies, prognoses are afflicted by great uncertainties. The further development of Somalia and Zimbabwe will be important for the stability and prosperity of the southern region of Africa. A peaceful Somalia and a responsibly ruled Zimbabwe would improve the region's economic development prospects considerably.

The 2008 succession of South African President Thabo Mbeki will be an event of regional and international significance. It is conceivable that his successor, who will come from the ranks of the ruling ANC, may lower the country's regional and international profile. The question of succession is often explosive in African countries (Melber and Southall 2006), since institutional stability is typically low.

There are several starting points for the donor community. The high level of difficulty, especially the structural factors of poverty, poor education and HIV, indicates the necessity of further developmental aid. The G8's decision to stock up to 60 billion euros to fight disease and build infrastructure is important for Africa, but it is not enough to create self-sustaining momentum for development. The weaknesses illuminated by the BTI, especially in the areas of reform policy implementation and low resource efficiency, can be better dealt with by strengthening governance programs in all of their facets (economic, political, corporate governance, etc.).

Result Management Index			Result Status Index		
	2008	2006		2006	2008
	7.33	7.44	Botswana	7.98	7.94
	7.23	7.57	Mauritius	8.17	8.33
	6.86	6.93	South Africa	7.98	7.98
	6.23	6.31	Madagascar	6.45	6.23
	5.86	5.98	Namibia	7.15	7.32
	5.84	5.92	Tanzania	5.65	5.84
	5.80	5.52	Zambia	6.07	5.97
	5.75	5.55	Uganda	5.82	6.19
	5.50	4.73	Malawi	4.89	5.35
	5.03	4.53	Kenya	5.78	5.89
	5.00	6.05	Mozambique	6.01	5.56
	4.80	2.77	Burundi	3.58	4.78
	4.58	4.44	Rwanda	4.60	3.89
	4.21	4.12	Ethiopia	4.19	3.96
	3.13	3.57	Angola	3.41	3.82
	2.06	2.18	Eritrea	2.94	2.37
	1.85	2.00	Zimbabwe	3.38	3.39
	1.04	1.55	Somalia	1.36	1.36

■ Political Transformation
 ■ Economic Transformation

A proposal submitted to the EU Commission in August 2006, which suggests linking the EU Africa strategy of 2005 with a new governance initiative, points in the right direction, since the European Union wants to provide financial support for independent policy-making in the African states under the framework of the African Peer Review Mechanism (APRM) (Schmidt 2007: 120).

In the context of weaknesses in the governance category and negative experiences with budgetary aid in the past, it remains doubtful whether the present tendency to provide massive amounts of developmental aid in the form of quickly flowing budgetary assistance makes sense in sub-Saharan Africa. Historical experience suggests that caution is required in this area.

West and Central Africa

An overview of development and transformation in Benin, Burkina Faso, Cameroon, the Central African Republic (hereafter: CAR), Chad, Côte d'Ivoire, Democratic Republic of the Congo (hereafter: DRC), Ghana, Guinea, Liberia, Mali, Mauritania, Niger, Nigeria, Republic of Congo (hereafter: ROC), Senegal, Sierra Leone and Togo.



At first glance, the state of political and economic transformation in West and Central Africa has not significantly changed. Despite a small, but steady, upward trend, when comparing the 2008 BTI to the 2006 BTI, the averages in the three subindices of democracy, market economy and management all stayed within an acceptable range (in statistical terms).

The key findings for the BTI 2006 remain more or less the same for the BTI 2008: the overall state of transformation is limited. Political deficits are clearly less pronounced than economic ones, and West Africa scored noticeably better than Central Africa. However, there are numerous dynamics that underlie these findings. One group of countries demonstrating improved performance stands opposite a group of countries sliding down the scale. Developments in the following areas primarily account for the political and economic changes in the region: armed conflict, holding elections and the commodity markets.

Transformation status: democracy

As of 2007, there are four regime types in West and Central Africa. Perhaps the most striking development since the BTI 2006 has been the reduced number of states making up the group of transitional regimes, which now includes Côte d'Ivoire and Mauritania only. Presidential and parliamentary elections in the DRC, Liberia and

the CAR during the period under review marked the end of their transition processes and Mauritania's elections came after the end of the review period.

This by-and-large positive development should not, however, detract from the fact that the quality of democracy still varies widely.

As in the BTI 2006, Benin, Ghana, Mali and Senegal can be described as democracies. Nevertheless, there are notable shortcomings in these countries primarily in terms of the state's monopoly on the use of force, rule of law and political and social integration. While Ghana and Benin have exhibited a slight upward trend in comparison with the BTI 2006, Mali and especially Senegal have taken slight steps backward.

More serious democratic deficits are found in the second group of Burkina Faso, Niger, Nigeria, Sierra Leone and—as a newcomer—Liberia. Similarly to Sierra Leone in the BTI 2006, Liberia made significant progress following elections in 2006. However, political stability there remains fragile and must be maintained by the presence of U.N. peacekeepers. Peacekeepers have already withdrawn from Sierra Leone without a fresh outbreak of hostility. Nevertheless, the country could not continue its upward trend, which resulted in lower marks for the state of transformation.

The CAR and the DRC also number among the former transitional regimes. Particularly in the DRC, the fact that elections were held, even with international support, is an advance in terms of transformation. However, due to a further outbreak of violent conflicts and the persistence of massive deficits in stateness, neither country can be classified as a democracy. On the scale of democratic vs. autocratic polities, both the CAR and the DRC are considered as autocratic as other cases such as Cameroon, in which the presence of multiparty elections is compromised by the fact that the victors have secured their mandate prior to the date of election.

Table 1: Transformation status: democracy; BTI 2008

Democracies	Defective democracies	Highly defective democracies	Moderate autocracies	Autocracies	Failed states
(< 8)	(< 8 to 6)	(< 6)	(> 4)	(< 4)	
Ghana ▲	Benin Mali Senegal	Niger Burkina Faso Nigeria Sierra Leone Liberia ▲ Mauritania*	Cameroon	Guinea ▼ Togo DR Congo Republic of Congo	Central African Republic Côte d'Ivoire Chad

Note: The table corresponds with BTI data. Countries are listed in order of their democracy scores.

Arrows indicate movement to a higher or lower category for the BTI 2008.

* = Transitional regimes

Autocratic structures are still more pronounced in Guinea, Togo, the ROC and Chad, which are relatively solidified personalized autocracies. In each of these four countries, however, uprisings have manifestly increased and rulers have been put under

considerable pressure, especially in Chad and Guinea. Even in Togo, where the son of the former dictator, Eyadéma, who died in 2005, is trying to confirm his power, there are signs that the dictatorial grip is relaxing somewhat.

Stateness

Democracy deficits in West and Central Africa can be attributed in large part to problems of stateness. Manifested less in issues of state identity and the separation of church and state, democracy deficits in this region are more visible in the state's monopoly on the use of force and its administrative reach.

Thus, in principle, problems with citizenship rights remain minor, though administrative shortcomings and the repression of minorities constitute *de facto* deficiencies. In Côte d'Ivoire, the concept of "Ivoirité" prevents large parts of the population of Muslims who have migrated from the Sahel from attaining equal rights as citizens. After several failed attempts, a potentially lasting solution appears to be on the horizon as a result of the accord with Ouagadougou and the integration of the northern rebel leader Guillaume Soro.

Throughout the region, the state's secular structure remains largely unchallenged, despite large Muslim populations. The generally moderate or syncretic character of African Islam and the secular traditions of the mostly French colonial powers have proven beneficial in this respect.

In countries such as Niger and Nigeria, however, strong fundamentalist currents continue to pose a threat. In Nigeria and Côte d'Ivoire, patterns of conflict are tied to religious cleavages between Muslims in the north and Christian-Animist groups in the south.

These states show massive deficits in the state's monopoly on the use of force and administrative reach. Post-conflict states such as Liberia and Sierra Leone face the challenge of state-building from the bottom up. Violent conflicts continue in the Democratic Republic of Congo, Republic of the Congo, Nigeria and the Central African Republic. Chad suffered a significant rise in violent rebel attacks that would have ousted President Idriss Déby, were it not for support from France. In Senegal, secessionist sentiment in the Casamance continues to smolder.

However, even among those states in the region that do not face organized violent conflict, none of them exercises full control throughout the entirety of its territory. The countries of Niger and Mali, which occasionally have problems with the Tuareg, also have vast, essentially state-free regions. More often than not, the state's presence barely reaches beyond the capital and larger urban areas.

Political participation

As noted at the beginning of this chapter, elections have been the marker of the most conspicuous change in West and Central Africa. With the exception of Côte d'Ivoire, the governments of all countries in the region are now based on multiparty elections—even if in some cases elections were held after the end of the review period. Even President Laurent Gbagbo in Côte d'Ivoire can build upon the partial legitimization conferred upon him by the 2000 elections, despite the fact that his term has effectively expired. However, the value of these developments is diminished considerably by the varying quality of elections held.

To a large extent, the elections in Ghana, Mali, Benin and Senegal were free and fair, except for the ever-present administrative irregularities. A group of eight countries was led by Niger and Liberia, both of which had already turned the corner in improving the quality of elections. No claim can be made as to the authenticity of the allegedly democratic elections held in six nations (Chad, Cameroon, Guinea, Togo, Côte d'Ivoire, the ROC).

Nigeria would also presumably number in this list were it not for the fact that elections—the third set of elections scheduled since the end of the Abacha dictatorship—were held in April 2007. Because this election was held after the end of the period of observation for the BTI 2008, its quality cannot be incorporated in this report. However, massive electoral fraud and intimidation were observed in Nigeria's elections. Indeed, violent conflicts prevented voting from taking place in a number of Nigerian states.

In its traditionally stronger function as an anti-democratic veto actor in West and Central African affairs, the military appears to have weakened when compared to the BTI 2006. Security forces in Chad, in particular, have proven problematic, though they have not rebelled against a democratic regime. After having carried out a military coup in 2005, rebels in Mauritania initiated a comprehensive process of transformation. Following presidential and parliamentary elections in early 2007, power was handed over to a civilian president.

In general, the quality of the electoral regime corresponds to the extent to which rights and freedoms are implemented. Though fundamental democratic rights such as the freedoms of association and expression are constitutionally guaranteed in almost all of the region's countries, these rights are often not ensured in practice. This is particularly true of Chad, the DRC, the ROC, Togo and Côte d'Ivoire.

Rule of law

In addition to weak stateness, problems with the rule of law persist as the greatest threat to democratization, even among the regional top scorers of Benin, Ghana, Mali and Senegal. Even the regimes that succeeded in carrying out processes of transition during the period under review have not yet made any substantial progress in this matter. For the DRC, in particular, this remains unlikely in the medium term.

In the remaining countries with more or less defective democracies, checks and balances between the legislative, executive and judicial branches are only somewhat viable. The executive tends to dominate the legislative branch in the region's presidential or semi-presidential systems. Informal mechanisms within the framework of neopatrimonialism and dominant party systems only amplify asymmetrical relationships between institutions in Burkina Faso, Cameroon, Chad, Guinea and Togo.

Given its scarce resources, poor professional standards, and susceptibility to political influence and corruption, the judiciary frequently falls short in its corrective function. This state of affairs helps illustrate why the abuse of office is an endemic problem in several states. Even repeated top scorers such as Ghana, Senegal and Mali have yet to rid themselves of corruption. The situation in Ghana has even worsened in relation to the BTI 2006. In contrast however, civil liberties there have become more solidly ensured.

Stability of democratic institutions

Only 10 of the region's 18 countries are (defective) democracies, insofar as the democratic institutions found in these countries are moderately stable. The six highly defective democracies have declined considerably in comparison to the four top scorers. Weak administrative apparatuses lead to pervasive shortcomings.

However, the level of acceptance and support for democratic institutions is generally higher than their actual performance. Key actors in defective democracies generally accept these institutions as the central forum for political debate. Even in the region's autocratic regimes, political actors are often prepared to use the (albeit) nominal democratic institutions for political activity. Chad, however, clearly deviates from this trend. The civilian opposition is marginalized, and only the military actors present a challenge.

Political and social integration

Interest groups and NGOs remain weak spots in terms of political and social integration. Even the party systems generally fail to fulfill their ascribed political and social functions. Given scarce resources, inadequate democratic structures within the parties themselves and the lack of agenda-setting, party systems in the region draw their stability almost entirely from ethnic-based loyalties or clientelism.

Throughout the region, the presence of relatively strong political parties appears to be linked to the realization of democracy. Longstanding absolute majorities by the ruling parties are characteristic of both the distinctively autocratic regimes in Chad, Cameroon, Guinea and Togo (and, following the 2007 elections, most likely in Nigeria, too) and the hybrid regimes in Burkina Faso and Sierra Leone. The democratic top scorers all exhibit increased fragmentation.

With the exception of Sierra Leone, this feature also applies to those countries whose party systems exhibit a fluid character as a result of political turbulence. In post-conflict states like Liberia and the CAR, the fragmentation of the party system might prove to be an obstacle to future political transformation, even when a volatile and “pulverized” party system, such as that in Benin (as confirmed once again by the elections in early 2007), is apparently compatible with democracy.

Trade unions and especially NGOs continue to be dependent on external assistance and fulfill little more than a monitoring or “watchdog” function. In Niger, however, a citizens’ “Coalition against an Expensive Life” succeeded in wresting concessions from the government in terms of its regulation of prices for basic necessities. In Guinea massive civic protests threw the regime of Lansane Conté into a deep crisis but have not yet been able to surmount his authoritative rule.

Survey poll data on attitudes toward democracy are available for seven of the region’s 18 countries. These strengthen the impression that it is not the popular attitudes of the citizens that stand as the primary obstacle to sustainable democratization. Particularly in Benin, Burkina Faso and Ghana—and, to a lesser extent, in Mali and Senegal—large majorities favor this type of government. Only in Nigeria and Chad did attitudes in favor of authoritative regimes reach substantial proportions, though they clearly remained below 50 percent.

Transformation status: market economy

While the political balance sheet remains mixed, no country in West and Central Africa has come even close to establishing a full-fledged market economy flanked by sociopolitical safeguards. The region has the lowest average scores of all regions. Ghana alone received above-average scores for economic development on the BTI’s absolute scale.

Little has changed since the BTI 2006 findings. The region as whole receives particularly low scores in the criteria of socioeconomic development and sustainability. Welfare regimes and the institutional framework for market competition—including the protection of private property—do not fare much better. While fiscal policy shows a highly mixed record, currency and price stability—thanks to the currency union of most Francophone countries—provides respite in the region.

Relatively encouraging growth rates may be attributed in large part to favorable developments on the commodities market and to higher growth potential in small economies, especially for the post-conflict states.

Level of socioeconomic development

The international attention that Africa at least ostensibly enjoys even among the Western public is closely tied to its low development status. One can see striking evidence of this in the BTI 2008. Only Ghana, the ROC, Mauritania and Cameroon scored above the lowest categories of the BTI. Nowhere in the region are there systemic means of limiting social exclusion that is based on socioeconomic status. In at least 12 of the countries, the majority of the population must get by on no more than two U.S. dollars a day. These numbers are particularly drastic in Mali and Nigeria, where the levels exceed 90 percent of the population.

This dramatic finding is substantiated by Human Development Index (HDI) results (see Table 2). Only three countries—Ghana, the ROC and Cameroon—are to be found in the category of “medium human development,” and even their rankings put them very close to being in the category of “low human development.” The last seven places on the ranking list were held by countries in West and Central Africa (including Guinea-Bissau, which is not included in the BTI rankings).

Table 2: Human development in West and Central Africa

Medium level of human development	Low level of human development	
Ghana (136)	Togo (147)	DR Congo (167)
Republic of Congo (140)	Mauritania (153)	Chad (171)
Cameroon (144)	Senegal (156)	CAR (172)
	Nigeria (159)	Burkina Faso (174)
	Guinea (160)	Mali (175)
	Benin (163)	Sierra Leone (176)
	Côte d’Ivoire (164)	Niger (177)

Source: HDR 2006 (no values for Liberia), listed according to HDI rankings.

Organization of the market and competition

An advanced institutional framework for market competition has not been achieved anywhere in West or Central Africa. With all indicators combined, only Ghana, Benin and Nigeria earned scores only slightly above average on the BTI scale. Particular kinds of deficiencies are, of course, found in countries affected by state failure and violent conflict, such as Chad, Côte d’Ivoire, the ROC, Liberia and the DRC.

Conditions have, indeed, improved in some countries when it comes to individual indicators, but there have been no substantial improvements in the aggregate. This finding can be found in the Heritage Foundation’s (very economically liberal) Index of Economic Freedom. Almost all of the countries in the study still rated in the second worst category of “mostly unfree.” (Senegal was categorized as “mostly free” in 2005.) In Togo, Chad and the ROC, economic freedom was viewed as fundamentally

“repressed.” Owing to their desperate situations, Liberia and the DRC were not rated at all.

Currency and price stability

Thanks to the monetary union in the franc CFA zone, which is tied to the euro, several countries in West and Central Africa enjoy high levels of price stability. The independence of the central banks for West and Central Africa, respectively, helps create a stable monetary and currency policy, although the central bank for the West African States clearly appears to be the better performer of the two in this regard. There is a tradeoff for monetary union members (Benin, Burkina Faso, the CAR, Cameroon, Chad, Côte d’Ivoire, Mali, Niger, Senegal and Togo); while these states have less free rein over their national economies, their inflation rates are clearly below those of nonmembers.

However, in comparison with the BTI 2006, the average rates of inflation rose. This is attributable in part to strong growth rates, such as that in Chad resulting from the oil boom. In addition, other key macroeconomic indicators of stability, such as the budget balance and debt, are far less impressive. However, in terms of debt reduction, Nigeria in particular made large advances during the period under review. Countries that had considerable difficulties in maintaining macroeconomic stability included Chad, the DRC and Côte d’Ivoire.

Private property

The deficiencies in the area of private property are closely tied to shortcomings in the rule of law. In principle, private property is well defined and protected by law in all of the region’s countries. Yet, corruption and administrative shortcomings hinder the effective protection of private property rights. Traditional and modern jurisprudence are to some extent at odds on this matter.

Private companies face similar problems when doing business in the region. In recent years, privatization demands have visibly strengthened the role of private enterprise, particularly in Ghana and Senegal. However, the (frequently large) informal sector—not the private sector—remains the backbone of the national economies of these countries; solid medium-sized enterprises are lacking and the privatization of large state-owned companies has progressed only sluggishly, as is the case in Chad. In many cases, state-owned companies and multinational corporations dominate the commodities market.

Welfare regime

The lack of effective social safety nets corresponds with low levels of development in the region. Even in the relatively best-performing countries of Ghana, Mali and Nigeria, they are at best rudimentary; in the CAR and the DRC, they are almost entirely absent. None of these states has been able to successfully battle endemic poverty alone, especially in rural areas. All of them require the help of donors, in particular the World Bank and the IMF.

Corresponding Poverty Reduction and Growth Facilities (PRGF) continue to be as ineffective at dealing with problems as similar IMF and World Bank programs in the past. Informal or traditional clan- and family-based networks frequently help more than anything else to mitigate poverty.

Equality of opportunity remains unsatisfactorily implemented, and women in particular face discrimination. The principle advance in the field of equal rights between the sexes is Ellen Johnson-Sirleaf's election to be president of Liberia. She is the first woman ever to have attained this position in sub-Saharan Africa.

Apart from this exception, women's access to education and political office remains limited, and female genital mutilation continues as a common practice in many countries. In Niger passage of a secular family law failed in the face of opposition from highly influential Islamic confederacies. Many ethnic groups face systematic discrimination. In Mauritania and Niger, for example, some groups continue to be informally treated as slaves.

Economic performance

The relatively strong performances of the region's economies can be chiefly attributed to strong rates of growth in 2006, which averaged just below five percent or somewhat under the African mean.

On the one hand, the post-conflict states Liberia, Sierra Leone and the DRC as well as the oil-producing countries Nigeria and the ROC have shown strong growth. Investments dedicated to preparing for oil production in Mauritania have also led to a high rate of growth. The export of raw materials from Mali and Guinea (excluding the oil sector, but including especially gold and bauxite) has substantially increased.

The high rates of growth can consequently be attributed to the generally positive development seen in the prices of raw materials, which has only been increased as a result of the People's Republic of China's hunger for natural resources and the end—or, in negative cases, the pausing—of violent conflicts. Ghana is perhaps the only country in the region likely to sustain its development. Worse yet, those states dependent on raw materials—that is, almost all of them—are apt to be especially susceptible to drops in prices and other “resource curse” effects such as inflation, corruption, the support of authoritarian regimes or violent conflicts.

Such effects are not inevitable, as they can be dealt with by means of vigilant management. However, the performance of the economies in other areas leaves only limited room for optimism. Problematic data on the trade balance, debt, the tax basis and unemployment clearly reveal why even these relatively high increases will not suffice to bring about any satisfactory results in the fight against poverty.

Sustainability

Desertification, deforestation, the 2004 locust plague and the catastrophic floods in the CAR in 2005 demonstrate the relevance of environmental problems. There are projects underway, such as those in the Sahel states, aimed at tackling erosion. But only in Burkina Faso and Ghana is there a modicum of true environmental awareness. Even these efforts remain inconsistent on the whole or are often set up primarily to win the favor of Western donors.

Developing human capital remains a serious problem. Even primary and secondary education is persistently insufficient, particularly in Liberia and Niger. Where present, universities and research institutes are barely functional. If paid at all, local scholars receive poor salaries, are dependent upon cooperation partners in the West, and leave the region at the first opportunity. Unfortunately, it looks as if the development of the most important source of transformation will remain neglected.

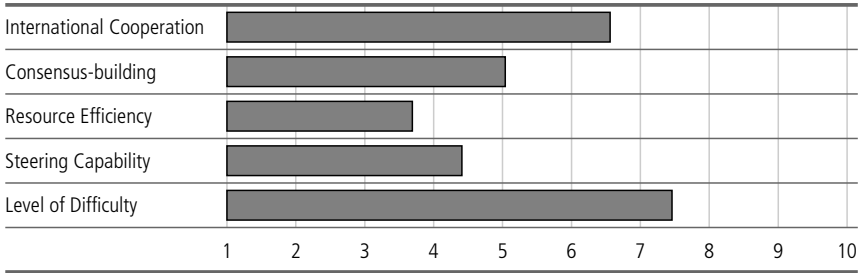
Transformation management

Transformation management is more difficult in West and Central Africa than in any other region in the BTI, and the variations between the countries are relatively minor. Measured by level of difficulty, the four most democratically developed countries are those with the most successful reform management. Senegal has fallen somewhat, while the top scorers remain Ghana, followed by Mali and Benin.

Transformation status and management are linked with one another. Having held elections during the review period, the countries that had been ranked as transitional regimes in the BTI 2006—the DRC, Liberia and the CAR—have shot up the ranking scale in the BTI 2008. However, they did emerge from a very low level of development and have yet to reach a satisfactory level, especially the DRC and the CAR. Transformation management in Chad, Guinea and Côte d'Ivoire is hardly worth mentioning.

Apart from the level of difficulty, management performance in four further criteria varies considerably. As was the case in the BTI 2006, the countries performed best in the criterion of international cooperation, which can still be attributed to dependence on foreign assistance. Last but not least, increased involvement by the People's Republic of China has allowed some countries—and especially those rich in natural resources—to become less dependent on the West.

Figure 1: Management criteria in West and Central Africa



All data = BTI score

Success at consensus-building is on average considerably less pronounced. Steering capability, however, suffered a worse fate, with resource efficiency alone faring even worse. Moreover, aside from the level of difficulty, there are significant differences between countries.

Level of difficulty

The Western public believes that ethnic conflicts are the primary obstacles to transformation, but this is only part of the truth. Indeed, there are no countries in West and Central Africa that are ethnically homogeneous nation-states. With the exception of the region’s northern countries with their pronounced Muslim majorities (Mali, Mauritania, Niger, Senegal), there is frequently also a mix of Africa’s three religious families of Christianity, Islam and traditional African religions. This mixture is particularly pronounced in the coastal countries and Chad.

In more than half of the countries, however, societal conflicts were resolved almost completely without violence. Violent conflicts such as those in Chad, the DRC, the ROC, Nigeria and the CAR often carry ethnic and/or regional undertones. However, political leaders play on the identities of different groups to mobilize support in their power struggles. The outbreak of violence between Christians and Muslims in the north of Nigeria, however, is presumably related to the conflict over the introduction of Islamic law, or Shari’ah.

There is a glaring lack of civil society traditions in the region, which corresponds to the state of democratization and the magnitude of violent conflicts. Civil societies are at best weak where processes of transition have led to superficially liberalized autocratic regimes (Cameroon, Guinea, Togo) or resulted in massive violent conflicts (Chad).

In contrast, only the region’s four longstanding democratic top scorers and Burkina Faso show moderate civil society traditions. As in Mali, relations between various ethnic groups are eased in Burkina Faso by “cousinage.” This tradition, also

known as “relations de plaisanterie,” permits members of different ethnic groups to poke fun at each other without these jibes being considered insulting.

By far the largest obstacles to transformation in West and Central Africa are structural problems such as extreme poverty, insufficient educational opportunities, physical infrastructures deficient to the point of state failure, natural catastrophes and disease. In half of the countries considered, these obstacles were massive, and particularly in those countries shaken by violence, such as the DR Congo, Liberia, Sierra Leone and the CAR.

Countries in the Sahel—such as Burkina Faso, Niger and Chad—also suffer from their landlocked location and desertification, which also leads to serious problems in the supply of foodstuffs. The 2005 hunger catastrophe in Niger aroused international attention. Serious structural problems still appear even in the relatively seldom-affected states of Ghana and Cameroon.

Countries in West and Central Africa have a comparatively more positive image than southern African countries because of their relatively low HIV infection rates and the mineral wealth found in some areas. However, as mentioned before, a country’s wealth in natural resources can easily bring about additional problems (the “resource curse”) without consistent and competent management. Nigeria and, most recently, Chad serve as good examples of this situation.

Steering capability

Successful management of transformation as defined by the BTI presupposes that the elites not only strive for liberal democracy and a market economy with sociopolitical safeguards; they must also successfully implement political reform, exhibit a certain degree of flexibility, and at the same time demonstrate the ability to learn and innovate.

Table 3: Quality of transformation management, BTI 2008

Successful management (10 to 7)	Successful management with weaknesses (< 7 to 5.6)	Management with moderate success (< 5.6 to 4.3)	Weak management (< 4.3 to 3)	Failed or nonexistent management (< 3)
Ghana Mali Benin Senegal Mauritania Niger	Nigeria Sierra Leone ▼ Liberia ▲ Central African Republic ▲ Burkina Faso	Republic of Congo Togo ▲ Cameroon DR Congo ▲	Guinea ▼ Chad ▼ Côte d’Ivoire	

Note: The table corresponds with BTI data. Countries are listed in order of their Management Index scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

- Taken together, the three indicators sort the countries into three different groups:
- In Ghana and Mauritania, steering capability earned relatively positive ratings. Ghana has on the whole implemented its reforms in both the political and economic realms. In Mauritania, a successful transition policy has positively shaped developments there. After the 2005 coup and some initial difficulties, a substantial process of transition was put into motion, which also led to a transfer of power to a civil government after the end of the period under review.
 - There is a second group of six countries—Nigeria, Benin, Mali, Senegal, Sierra Leone and Niger—whose strategic aims and flexible implementation of reforms already appear to be somewhat less authentic and efficient. Benin and Nigeria have made considerable progress and have pulled ahead in the ranking. Nigeria’s rise in the ranking comes primarily as a result of economic successes, though the catastrophic circumstances surrounding the April 2007 elections are likely to knock it down a few ranks by the next round. In Benin, the newly elected president Yayi Boni must still live up to his earlier acclaim. The government of Senegal, for example, was not able to satisfy such expectations and, as a result, that country numbers among those whose ranking dropped, such as Niger.
 - In the remaining 10 countries, the willingness to reform remains fundamentally in doubt.

Indeed, the strong dependence of most of the region’s countries on external donors casts a shadow of doubt upon the sincerity of their governments’ strategic prioritization of political and economic transformation. Especially when it comes to economic issues, donors tie their financial benefits to corresponding political reforms.

Things have remained relatively unchanged for most states, including Burkina Faso, Cameroon, Guinea and Chad. When reforms threaten the power base of governments, they are thwarted. Maintaining power remains the one and only strategic priority. Indeed, developing the capacity for political learning is also contingent primarily upon this goal. In Guinea, it is also the case that any government activity was severely hindered by the president’s ill health.

It is perhaps advisable to judge post-conflict states with caution. After years of political turbulence, elections in the DRC, Liberia and the CAR have led to progress. Optimistic outlooks for Liberia and (perhaps in the future) Côte d’Ivoire are realistic. As a result of persistent conflicts in the DRC and the CAR following their elections, a high degree of skepticism is advisable.

Resource efficiency

No criterion in terms of transformation management earns lower scores in West and Central Africa than the efficient use of resources. None of the governments in West and Central Africa uses its resources optimally and, in general, only a few resources are efficiently used.

While the governments of Chad, the DRC, Guinea and Côte d'Ivoire in large part consume their own resources, the democratic frontrunners once again prove to be the most efficient employers of resources. But even the top scorer Ghana earned only moderate scores—it took 34th place in the BTI 2008—and was forced to accept some setbacks, especially in the fight against corruption.

Unfortunately, endemic corruption is not just a cliché for those who are pessimistic about the situation in Africa. According to Transparency International estimates, none of these countries scored above the 70th rank (Ghana, Senegal) or the reasonably poor value of 3.3 (maximum transparency: 10) on the 2006 Corruption Perception Index. In addition, the last three places in the international ranking are held by Chad, the DRC and Guinea. This signals an even greater decline in scores in comparison to the 2004 evaluation, in which the highest rank was 64 and the highest value was 3.6. Last but not least, the efforts undertaken due to donor pressure in the fight against corruption have yet to achieve any lasting success in any of the region's countries.

Weak administrative apparatuses and personal power struggles are primarily responsible for the lack of coordination among various political institutions and policies. Constant cabinet shuffling in Chad, which is done to undermine rival power bases, prevents competent experts from becoming (and staying) ministers. One should remember that especially African governments are asked to reach different goals that can be very difficult to reconcile. In particular, economic reforms demand austerity measures, which rarely find support among the population or societal groups that might back them.

Niger is a good example of this. Price increases for staple foods and fuel led to a massive protest movement. A confederation of numerous groups succeeded in persuading the government to repeal a number of measures.

Consensus-building

African cultures treasure consensus-building, a fact that was taken into account by the national conferences held at the beginning of the 1990s in several Francophone countries as part of the wave of democratization. But this consensus orientation can perhaps often obscure dissent and hinder controlled conflict resolution.

It should perhaps come as no surprise that there has been a considerably wide spectrum of success in terms of creating consensus. Once again the democratic countries should be given positive mention, followed by Niger (which fell only slightly in the rankings) and, as the only post-conflict state, Liberia. During the period under review, the ROC, Chad, Guinea and the Côte d'Ivoire in particular had very little success in consensus-building.

With the exception of Ghana, the dual goals of a constitutional democracy and a market economy with sociopolitical safeguards are not equally pursued as policy objectives by all relevant actors. Nonetheless, relevant actors in Benin, Senegal, Mali

and Niger are generally in favor of reform. But, in many other cases, governments stand in the way of reforms in their own countries. This is especially the case in the four countries at the bottom of the scale, as well as for Cameroon and the DRC.

Irreconcilable conflicts between social groups are dependent in unique ways upon the leadership's behavior. The governments of Benin, Mali and Ghana succeeded in contributing to the de-escalation of potential conflicts. This success runs parallel to government efforts to address past injustices. In Benin and Mali, this process is quite advanced, if not partially complete. A new peace treaty defused a flare-up in the Tuareg conflict in Mali in May 2006. In Senegal, encouraging signs that the secessionist conflict in the southern province of Casamance would finally be settled have proven unfounded.

During the period under review, the government in countries such as Chad, Guinea and Côte d'Ivoire aggravated rather than mitigated conflicts. The violent opposition to President Idriss Déby in Côte d'Ivoire and the massive protests against President Lansane Conté in Guinea both result from the authoritarian means of governance in these countries. Following the creation of a transitional government in 2007, reconciliation between the northern and southern parts of Côte d'Ivoire is expected as well as a resolution to the de facto division of the country.

In contrast, recent events in the DRC and Nigeria have cast a shadow upon successes earned during the period under review. In March 2007, after fierce fighting in Kinshasa, the Congolese opposition leader Jean-Pierre Bemba was forced to seek refuge in the South African embassy and later to travel to Portugal. The fraudulent election, which benefited the successor to President Olesegun Obasanjo, Umaru Yar'Adua, stands as a burdensome political mortgage weighing upon the country.

In places where violence prevails, civil society actors have a very difficult position. The integration of civil society in the formulation of policy is most clearly visible in concrete terms in the framework of Poverty Reduction Strategy Papers (PRSP), which in turn remain a prerequisite to credit and debt relief set by international financial organizations and bilateral donors. But as a task imposed from outside, participation by civil society in the PRSP process is often halfhearted at best.

International cooperation

The findings of the BTI 2006 remain valid. The region's enormous dependence upon external assistance is one of the reasons for its relatively successful transformation management in terms of international cooperation. Thirteen of the region's 18 states received above-average scores on the BTI's absolute scale. All of the countries in the region are dependent upon foreign assistance and more than willing to make use of it. With the possible exception of Ghana, development cooperation is seldom optimized to achieve transformation goals.

The chronic shortage of will for political reform is exacerbated by a lack of external pressure for democratic reform. The French government has continued to support

authoritarian regimes within the framework of maintaining a “zone of influence.” In Chad, France even went so far as to provide military (though only logistical) support. Since 9/11, the United States views some of the region’s governments as allies in the “war on terror.” The oil boom in the Gulf of Guinea has developed the region’s reputation as an oil provider that can reduce America’s dependence upon oil in the Arab world. The region’s raw materials account for the People’s Republic of China’s drastically increased involvement in the region, which will likely serve to lessen the pressure for democratic reforms in future.

Due to widespread political instability and despite the potential of their natural resource sectors, the countries of West and Central Africa are not considered attractive investment partners. However, the region’s governments are generally viewed as reliable in international affairs. Indeed, Benin, Ghana, Mali and Niger succeeded in reaffirming their fundamentally flawless reputations. The region’s former transitional regimes improved their scores, and even Burkina Faso has proved itself worthy of confidence as a result of the peace accord in Côte d’Ivoire, despite the fact that Burkinabé president Blaise Compaoré had most probably supported rebels in Côte d’Ivoire.

The DRC, Guinea and Côte d’Ivoire (especially before the peace accord) proved themselves uncooperative. Things have deteriorated in Chad. In order to prevent the negative effects of oil production, such as distributional conflicts and the development of an authoritarian and economically ineffective rentier state, a special revenue management system was introduced with World Bank assistance.

Fears that the government of Chad would only halfheartedly pursue the goals of this system proved well founded. At the end of 2005, the government unilaterally amended the corresponding oil law in order to give itself some room to fight against rebels and a budget crisis. Only the massive intervention of the World Bank and other donors was able to exact a compromise in May 2006, although the government only considers it a partial success. In many places the former “model” is now viewed as having failed.

The participation in international and numerous regional organizations, such as the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU), the Central African Economic and Monetary Union (CEMAC), the Economic Community of Central African States (CEEAC) or the African Union (AU), is clearly an asset to transformation management. As an exception, Nigeria belongs to the group of top scorers for this criterion. As a regional power, Nigeria has participated in several peace efforts and has served as an important actor in regional organizations such as ECOWAS and the AU.

Conclusions

As stated at the start, transformation toward a market-based democracy in West and Central Africa between 2005 and 2007 gained little ground. To be sure, the fact that elections have now been held in almost every country in the region should be viewed as a relatively spectacular advance in transformation. To a substantial degree, however, there have been steps taken backward that weigh upon the gains made. For each criterion, there are countries that have improved upon their past performance and those that have shown regression.

In terms of political transformation, the former transitional regimes of Liberia, the DRC and the CAR in particular did not at all perform satisfactorily, despite the fact that they made considerable gains after having started at a low level. The countries that lost the most ground were Chad and Senegal, which shows that achievements should in no way be considered guaranteed and permanent. Those countries showing remarkable improvement in the BTI 2006, Niger and Sierra Leone, did not lose substantial ground but were not able to continue their upward trend.

Liberia and the CAR were also able to make progress in terms of economic transformation, but not toward instituting sociopolitical safeguards. Nigeria owes its relative upswing primarily to successful debt relief and good rates of growth. Chad and Guinea in particular suffered setbacks in economic transformation. To a lesser ex-

Result Management Index			Result Status Index		
	2008	2006		2006	2008
	6.72	6.76	Ghana	6.99	7.30
	6.25	6.44	Mali	6.10	6.16
	6.20	5.68	Benin	6.26	6.34
	6.19	6.77	Senegal	6.64	6.07
	5.94	–	Mauretania	–	4.46
	5.69	6.13	Niger	5.36	5.15
	5.53	5.33	Nigeria	5.38	5.67
	5.01	5.73	Sierra Leone	5.27	5.24
	4.96	3.62	Liberia	2.79	4.20
	4.64	3.90	Central African Rep.	3.23	4.05
	4.54	4.42	Burkina Faso	5.34	5.39
	3.80	–	Congo, Republic	–	3.78
	3.65	2.28	Togo	3.82	3.75
	3.41	3.26	Cameroon	4.31	4.46
	3.36	2.47	Congo, DR	2.62	3.16
	2.61	3.84	Guinea	4.20	3.72
	2.61	3.24	Chad	3.86	3.24
	2.18	1.83	Côte d'Ivoire	3.14	3.22

Political Transformation

Economic Transformation

tent, this is also the case with Niger, where a hunger crisis in 2005 points to the country's particular difficulties.

Togo and Liberia in particular made advances in management. While Liberia enjoyed an "elections bonus," Togo succeeded in improving its deplorable 2006 score relatively clearly, though not substantially, by appointing a national unity government. Deterioration in management performance in Guinea and Chad is tied to violent rioting. In Guinea, in particular, a personalistic regime with a very ill president at its head proves to be incapable of reform. However, among the countries that performed more poorly are Sierra Leone and Senegal, where power struggles before the elections nurtured deficiencies in governance.

Even in the 21st century, Pliny the Elder's dictum that something new is always to be expected from Africa continues to have validity. The volatility of political development will undoubtedly bring about negative—or positive—surprises in future.

Against the background of continuously unfavorable transformation conditions in West and Central Africa, foreign aid remains essential, but increased development aid budgets are no panacea. In addition to dismantling trade barriers in the north, particularly those countries that exhibit integrity, skill and a certain amount of luck should be supported.

The growing influence of the People's Republic of China, however, will impinge upon the influence of the West and might lead to a renaissance of shortsighted geopolitical calculations, which would mainly benefit rulers with little interest in transformation. The potential success of targeted foreign influence in West and Central Africa should be viewed with a significant degree of humility.

Asia and Oceania

An overview of development and transformation in Afghanistan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, North Korea, Pakistan, Papua New Guinea, Philippines, Singapore, Sri Lanka, South Korea, Taiwan, Thailand and Vietnam.



At the beginning of the 21st century, the West typically considers Asia to be a site of economic change. Indeed, for decades, the world's fastest growing economies have been in Northeast Asia. In the last decade, India too has begun to develop into a major economic powerhouse.

However, there is another, less flattering perception of developments in Asia and Oceania that points to wide areas of South Asia and significant portions of Southeast Asia that have not benefited from the larger region's dynamic growth. Indeed, many Asian nations continue to suffer from poverty, violent ethnic conflicts, religious fanaticism and transnational terrorism, and there are weak, failing or failed states bordering the region that are rife with regional and global dangers.

Both images of Asia are justifiable, as BTI 2008 results show. This can be attributed to the fact that the 21 states in the region are highly heterogeneous in their development. The region includes two of the most-populated countries in the BTI, China and India, as well as one of the least-populated countries, the Kingdom of Bhutan, which is included here for the first time. The spectrum of human development levels ranges from Singapore, which ranked 25th on the UNDP's HDI 2006, to Papua New Guinea, which ranked 139th. In political terms, hard autocracies such as

China and North Korea coexist alongside developed democracies such as Taiwan and South Korea.

There are four different subregions within Asia and Oceania. Historically, South Asia has been influenced by Indian-Hindu, Buddhist and Islamic elements, whereas Northeast Asia is often characterized as a Confucianized region. Southeast Asia bears cultural and historical influences from both of these regions, with continental Southeast Asia tending toward Buddhism and maritime Southeast Asia tending toward Islam and Christianity. The fourth subregion of Oceania, represented by Papua New Guinea, is characterized by low levels of economic and social development, high linguistic and religious diversity, weak stateness, but also durable democratic institutions.

The BTI 2008 shows three key findings for Asia and Oceania in terms of the status of democratic and economic transformation, as well as the management performance of political leadership throughout the region:

- There have been only marginal changes in the overall level of democratic transformation in Asia and Oceania. Some indicators point to a crisis of democracy in South and Southeast Asia. At the same time, there have been no significant steps taken toward political liberalization in most of the region's authoritarian regimes. The prospects for further democratization in Asia and Oceania must therefore be assessed with skepticism.
- The trends in economic transformation identified by the BTI 2006 have continued throughout the period under review for the BTI 2008; the decoupling of economic and democratic transformation has also continued.
- The quality of management for the entire region has changed only minimally since the BTI 2006. However, the management performance of political leaders in some countries, as well as the performance demonstrated in certain management areas, diverges from this overall trend. This suggests a deepening segmentation in management performance.

Overall, there are six different groups of transformation states in Asia and Oceania. The first five groups largely correspond in composition to those established in the BTI 2006.

- States that have achieved an advanced stage of economic and democratic transformation, and whose political elites demonstrate extraordinary management qualities while preserving the transformation gains made thus far (South Korea, Taiwan).
- States whose democratic systems and market economies are deficient, although they have managed to stabilize gains made in transformation or build on them (Sri Lanka, India, Indonesia).
- Authoritarian regimes with a good to high level of economic transformation, but where democratic transformation remains blocked (Singapore, Malaysia).
- Autocracies exhibiting generally effective economic development, but which have not introduced any democratic reforms of substance in recent years (China, Vietnam).

- States with autocratic political systems (excepting Papua New Guinea) and market economies that function poorly or are only rudimentary in nature (Cambodia, Nepal, Pakistan, Bhutan, Laos, Myanmar, North Korea).
- States at different levels of economic transformation in which political instability and eroding democratic standards threaten democracy (Afghanistan, Thailand, Bangladesh, Philippines).

Transformation status: democracy

According to the BTI’s criteria for political transformation, the 21 states in the region are grouped into six categories as follows:

Table 1: Transformation status: democracy; BTI 2008

Democracies	Defective democracies	Highly defective democracies	Moderate Autocracies	Autocracies	Failed states
(10 to 8)	(< 8 to 6)	(< 6)	(> 4)	(< 4)	
Taiwan South Korea India ▲	Indonesia Philippines Sri Lanka Papua New Guinea	Bangladesh ▼	Singapore Malaysia Thailand ▼ Cambodia	Nepal Bhutan Pakistan China Vietnam Laos North Korea Myanmar	Afghanistan ▼

Notes: The table corresponds with BTI data. Countries are listed in order of their democracy scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

In only nine of the region’s 21 countries, a number that includes Afghanistan, are people able to elect their leaders in free and fair elections. Taiwan and South Korea represent the region’s success stories in terms of democratization. In contrast to these fully developed and participatory democracies, the electoral process in the other (defective) democracies is marred to varying degrees by irregularities. Restrictions on the freedoms of association, opinion and the press are the rule in almost all of these countries.

In comparison with the BTI 2006, five countries experienced changes in their democracy status score of 0.3 or more points. Scores for Bangladesh and the Philippines fell 0.6 and 0.65 points respectively; Thailand’s score fell by as much as 1.75 points. In each of these three countries, polarization in domestic politics has rapidly increased in recent years, which has been accompanied by the military’s growing political influence. Scores for Afghanistan and Sri Lanka increased by 0.3 or more points. A number of other countries, such as India, Nepal and Indonesia, have shown slight improvements since the BTI 2006.

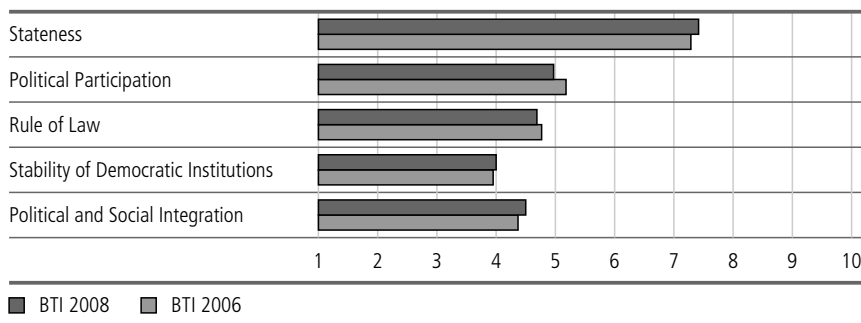
However, developments in only four states resulted in a change in categorization. Two of these states—India and Bangladesh—shifted within the group of democratic systems; India joined the ranks of consolidating democracies and Bangladesh dropped to the status of a highly defective democracy. Thailand and Afghanistan, however, are no longer classified as democratic regimes. Thailand’s reclassification is a direct result of the military coup in September 2006, which was followed by the appointment of an interim government at the hands of the military. Elections in Thailand have been announced for December 2007. Despite showing improved scores in individual categories and having successfully conducted parliamentary and presidential elections, Afghanistan has been rated a failed state because of its weak stateness and the absence of the state’s monopoly on the use of force throughout most of the country.

Since the BTI 2006, South Asia shows an increase in 0.14 points for the democracy status score (without Bhutan), whereas Southeast Asia shows a decrease in 0.3 points. The democracy status score for Northeast Asia remains unchanged. The lack of meaningful advances made in democratization and the erosion of democracy in several of the region’s countries suggest that democratic development continues to stagnate. To make matters worse, transformation in Southeast Asia has suffered a slight roll-back.

A closer look at the values for the five political transformation criteria point to three conclusions with regard to successes and failures in processes of political change:

First, changes in the region overall are only marginally significant; none of the five criteria show changes of more than 0.3 points. Second, as pointed out in previous BTI studies, the entire region of Asia and Oceania has a high level of stateness. Third, these findings confirm BTI 2006 results that point to the rule of law, stability of democratic institutions, and political and social integration as Asia and Oceania’s weak spots in political transformation.

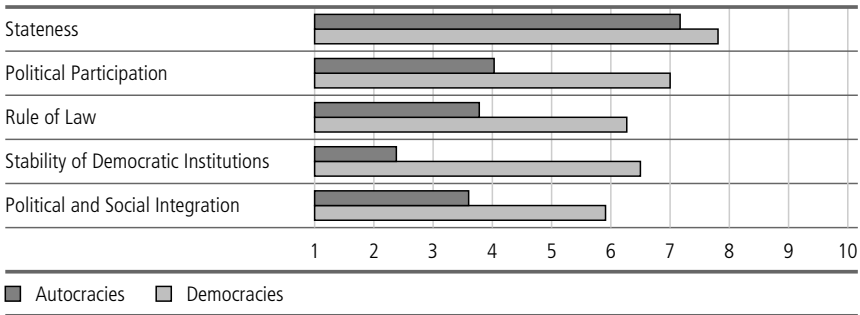
Figure 1: Political transformation in Asia and Oceania (N = 20)



All data = BTI score

Note: does not include Bhutan, which is included for the first time in the BTI 2008.

Figure 2: Status values for political transformation, organized according to regime type (2008, N = 21)



All data = BTI score

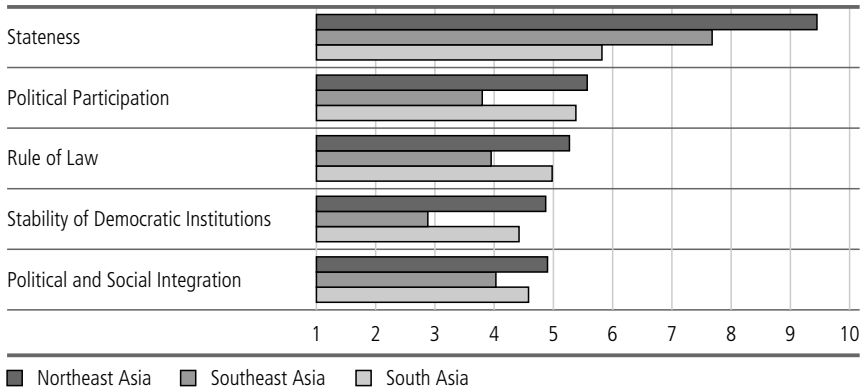
Of particular relevance is the weak performance of political institutions facilitating political and social integration. This and the absence of stable patterns of representation and conflict mediation combine as salient factors threatening political stability in the region. These dynamics currently weigh primarily upon the region’s “young” democracies, as well as some authoritarian regimes such as Pakistan, Nepal, Thailand and Myanmar. In the future, this may apply also to autocracies, such as the People’s Republic of China and North Korea.

One facet of this problem is the “ethnocratization” of state and politics, and another is the inability of socially and economically disadvantaged groups to realize their civil liberties and social rights.

As expected, the group of twelve autocratic regimes (plus Afghanistan) performed worse than the group of eight democratic regimes in all criteria of political transformation. It should be pointed out, however, that the least significant differences are found for the criterion of stateness; autocratic regimes achieve their highest score in this category. There are two reasons for this. First, the number of democracies in states with limited performance capabilities—such as Bangladesh, the Philippines, Indonesia and Papua New Guinea—is relatively high. Second, the phenomenon of “strong” autocratic states deserves to be mentioned (China, North Korea, Singapore, Vietnam and Malaysia).

Within the overall trends such as weak sociopolitical integration in democratic regimes or strong states in autocratically governed nations, there are significant differences between the two groups of political regimes. For example, Taiwan and South Korea scored well above the average in all five criteria; India received above-average scores for the criteria assessing political participation and the stability of democratic institutions. In contrast, “soft” authoritarian regimes in Singapore and Malaysia received far better scores than all other autocratic regimes—and even some defective democracies—for the criteria assessing the rule of law, political integration and meaningful representation.

Figure 3: Status values for political transformation by subregion (2008, N = 21)



All data = BTI score

Furthermore, the development of transformation criteria in the region's young democracies supports BTI 2006 findings that point to a widening gap in quality between successfully democratized countries in Northeast Asia and the defective (illiberal) democracies in South and Southeast Asia.

Northeast Asia generally scored higher in all criteria for political transformation than all other subregions in Asia and Oceania. This has primarily to do with the fact that Korea and Taiwan, both of which have achieved a high level of transformation, effectively pull subregional scores up. The relatively high levels of stateness in the subregion are also a key factor. In contrast, the nations of South and Southeast Asia generally suffer from weak stateness, albeit to differing degrees. There are a few exceptions to this generalization, of course, such as Singapore. Stateness crises in this subregion of Asia manifest themselves in the form of limited decision-making capacities, inadequate supervisory capacities and the ineffective implementation of policies. As a failed state, Afghanistan is clearly an extreme case here. Similar, though less dramatic, phenomena can be seen in other South Asian states and on the periphery of the Philippine and Indonesian archipelagos.

Although South Asia scores lowest in terms of stateness, it nonetheless scores better than Southeast Asia in all other criteria for political transformation. South Asia's combination of weak stateness and relatively well-developed political participation indicates that democratic transformation in the subregion is fragile. Though perhaps to a differing degree, the same is true for maritime Southeast Asia and Oceania.

Transformation status: market economy

Trends identified in Asia and Oceania's economic development by the BTI 2006 have continued throughout the last two years. A comparison of the most recent BTI values with those of 2006 reveals only little change. None of the seven criteria show positive or negative changes of more than 0.3 points. However, individual countries may deviate from this trend.

Table 2: Transformation status: market economy

Developed market economy	Viable or functioning market economy	Market economy with functional flaws	Poorly functioning or rudimentary market economy	
			(< 5 to 3)	(< 3)
(10 to 8)	(< 8 to 7)	(< 7 to 5)	(< 5 to 3)	(< 3)
Singapore Taiwan South Korea	Malaysia Thailand	Sri Lanka ▼ India China Philippines Indonesia Vietnam Pakistan Bangladesh	Nepal ▼ Cambodia Papua New Guinea Laos Bhutan	Afghanistan ▼ Myanmar North Korea

The table corresponds with BTI data. Countries are listed in order of their scores for the status of market economy. Arrows indicate movement to a higher or lower category for the BTI 2008.

Aside from North Korea and Myanmar, political decision-makers in the region fundamentally agree with targeting a market economy as a transformation goal. However, only a few countries have a fully viable market economy. Even fewer have reached a level of development that can offer most citizens a better future and freedom of opportunity.

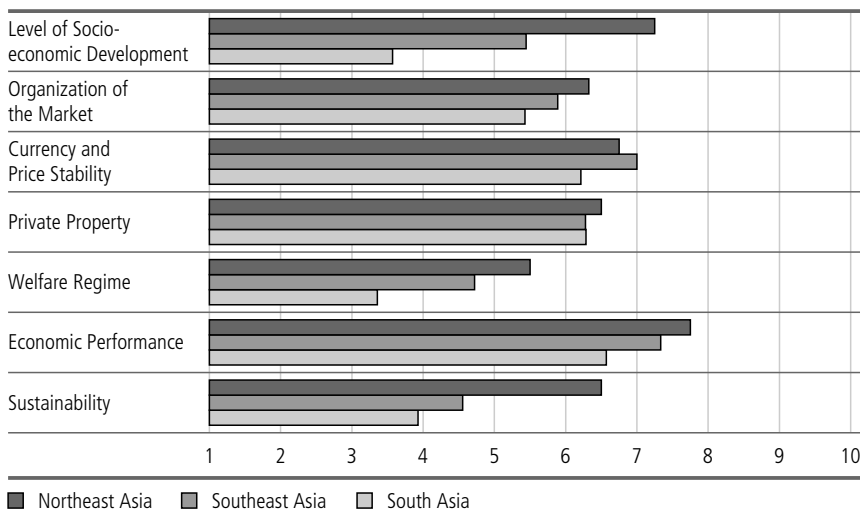
The region's current economic systems and their transformation paths can be divided into four groups. The constellation of each contrasts starkly with those identified in political transformation:

- Singapore, South Korea and Taiwan have highly developed market economies that are framed by well-functioning political systems, and their shortcomings in transformation are limited, both in intra- and in interregional comparison.
- Both Malaysia and Thailand have viable institutional frameworks capable of promoting market-based competition but clearly do not achieve the level of the region's top performers in transformation. Whereas Malaysia in particular shows deficits in the criteria of: organization of the market and competition, welfare regime and sustainability, Thailand has grappled with flagging economic growth in 2006 (and into 2007), currency problems and a generally low level of socio-economic performance in comparison with the aforementioned states.

- The third group includes states whose market economies exhibit considerable deficits and in which regulatory frameworks for the market are either partially in place or in the process of being established. Levels of and trends in development within this group are highly heterogeneous. This group includes countries showing improved performance in the BTI economic criteria, in some cases significantly (China, India and Vietnam), as well as countries that have achieved relative stability (Indonesia, Bangladesh and the Philippines), and one country in which the framework of economic transformation has deteriorated somewhat (Sri Lanka).
- The fourth group includes countries in which the economic system shows severe regulatory weaknesses and where economic performance and the level of development remain far below that of the region's other states. Once again, the trajectories in transformation point in different directions. Whereas China, Laos, Vietnam and Papua New Guinea have made progress, Nepal, Bangladesh and Thailand have taken steps backwards. The remaining countries show only marginal change.

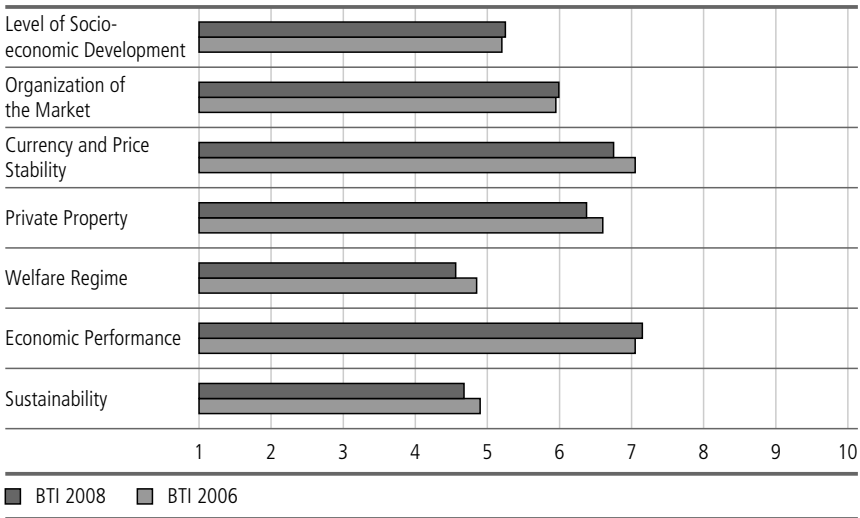
Although the coastal regions of Northeast and Southeast Asia continue to represent the world's most dynamic growth area, the South Asian states (with the exception of India), Oceania and some parts of Southeast Asia have yet to latch on to the headway being made.

Figure 4: Status of economic transformation by region (N = 21)



All data = BTI score

Figure 5: Transformation status: market economy (N = 20)



All data = BTI score

Political leaders in the “socialist” one-party states of Vietnam and China have continued to reform their economic institutions and to decentralize their economic and political decision-making institutions and processes. Laos has also started down the path toward economic transformation. Clearly, the label “socialist” has become increasingly meaningless in these countries. Instead, mixed economic systems with predominantly capitalist structures have emerged in which the market framework for competition has strengthened in recent years. Developments in China illustrate this phenomenon most clearly.

Even North Korea has taken tentative steps toward strengthening certain market mechanisms within its economic system, such as deregulating prices and permitting farmers’ markets. To be clear, however, these measures have not resulted in a coherent strategy of economic reforms in the last two years. Along with Myanmar, North Korea remains at the tail end of economic transformation in Asia and Oceania.

As was the case in the BTI 2006, the lack of socioeconomic development, social safety nets, the equality of opportunity and sustainability continue to plague economic transformation in Asia and Oceania. It should be noted, however, that overcoming poverty remains the single greatest problem in Asia. In a region marked by astounding discrepancies in growth rates, there are almost 900 million people currently living in poverty; more than half of these people live in South Asia. Also, more than one-half of these 900 million, namely 500 million people, live in extreme poverty, meaning they subsist on less than one U.S. dollar per day. In fact, almost 75 percent of the world’s extremely poor live in Asia and Oceania. Longstanding social clea-

vages combined with politically divisive factors have created an environment highly susceptible to domestic conflicts, especially in South and Southeast Asian states already plagued by conflict.

Whereas Taiwan, South Korea and Singapore maintain comparatively well-developed social welfare systems and provide their citizens an adequate equality of opportunity, state-based welfare arrangements designed to facilitate social equality and compensate for the effects of a market economy remain underdeveloped in most of Asia and Oceania's other countries. Intraregional differences in the access to and quality of education systems, as well as in the performance of health care systems, can be traced to differences in budgetary priorities for public spending on social infrastructure.

Aside from a few exceptions such as South Korea, Taiwan and Singapore, health care systems in Asia are poorly developed and not capable of addressing public health emergencies such as HIV/AIDS or SARS. Although the HIV/AIDS pandemic has largely been concentrated in sub-Saharan Africa, there are increasing fears that HIV epidemics in states like China or India may reach alarming proportions. Average projections, based on estimates from UNAIDS, predict cumulative new HIV infections to reach 70 million in China and 110 million in India by 2025 (Eberstadt 2002).²¹

Many states lack the financial and medical resources to mount an effective prevention campaign, usually because of intentional underfunding of the health sector. In a majority of the countries in the region, public expenditures for health care remain significantly below defense expenditures.

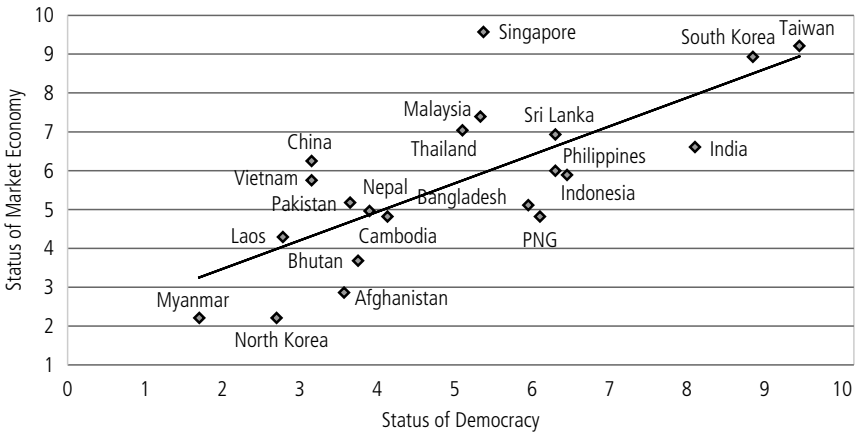
The low level of sustainable development in Asia represents a third and especially problematic deficit. Although states in the region such as South Korea, Singapore and Taiwan—and to an increasing degree China and India—have well-established and internationally competitive education systems and research sectors, in the rest of Asia and Oceania, low state expenditures for education or the absence of reputable public educational institutions create significant hurdles in economic development.

Most of the region's countries also have little regard for the environmental aspects of development. According to several of the BTI country reports, Asian development is characterized by a systematic, often callous exploitation of natural resources and massive environmental destruction. The region's most economically successful states in particular are showing a continual increase in environmental pollution that is directly related to economic and population growth, the rise of mega-cities and diminishing arable land.

Environmental degradation in the poorer countries and increasing resource and energy consumption in the booming economies, when combined with the consequences of global climate change, put Asian states at high environmental risk. This is exacerbated by the fact that Asian governments often do not have the required implementation and monitoring tools in place to improve environmental policy.

21 At the end of 2005, the number of Chinese infected with HIV is approximately 650,000; in India, the number of those infected with HIV is estimated at 5.7 million (UNAIDS 2006).

Figure 6: Democracy and market economy (N = 21)



$R^2 = 0.5454$

All data = BTI score

Even a relatively “strong” state such as the People’s Republic of China is not in a position to effectively implement its own environmental policies throughout the country.

Correlating the status of economic transformation with the level of political transformation and regime type shows that the group of democratic states outperforms their authoritarian counterparts in every criterion. Although there are some autocracies showing economic prowess, such as Singapore, China, Vietnam and Malaysia, the vast majority of the region’s autocracies are far less successful. The region’s democratic states also show a wide variety of levels achieved in economic transformation.

The high degree of heterogeneity within both regime categories renders their comparison limited in terms of explanatory power. However, the difference between both groups in terms of the overall level of economic performance is quite slim. This can be attributed in part to consistently high growth rates, especially in China and Vietnam.

It should also be noted that the region’s autocracies earned relatively high marks in the areas of a market framework and private property, even though the leaders in four of these 13 autocratic regimes describe themselves with the rhetoric of socialism (China, North Korea, Vietnam and Laos). Finally, there are significant differences in the areas of welfare regime and sustainability, which fare better in democratic systems. This suggests that Asia’s autocracies tend to assign less value to the development of welfare systems and sustainability than the democracies.

Transformation management

Similar to the results in the status of political and economic transformation, there have been only limited changes in transformation management for the region since 2005. Whereas the quality of management has improved marginally overall, the spectrum of management performance throughout Asia and Oceania has expanded.

North Korea and Myanmar continue to fall behind most other states in the region. Only Nepal demonstrated particularly noteworthy improvement in management performance, thanks to the leadership's introduction of peace and reconciliation processes that affected the capacity for learning and consensus-building. In contrast, Bangladesh fell behind as escalating conflicts between the government and opposition parties led to a transitional government under the strong influence of the military, which rescheduled upcoming elections for 2008.

Thailand, which received low marks in the BTI 2006 as a result of the utter failure of management among political elites there, is worth noting in this context. The other states—including Papua New Guinea, which has been upgraded to a higher category—show only slight improvements or downturns in management performance. The BTI 2008 reveals, once again, five categories of management performance:

Table 3: Quality of transformation management, BTI 2008

Successful management	Successful management with weaknesses	Management with moderate success	Weak management	Failed or nonexistent management
(10 to 7)	(< 7 to 5.6)	(< 5.6 to 4.3)	(< 4.3 to 3)	(< 3)
South Korea Taiwan	India Singapore	Malaysia Sri Lanka Indonesia Bhutan Nepal ▲ China Philippines Thailand Vietnam Papua New Guinea ▲ Afghanistan Pakistan	Bangladesh ▼ Laos Cambodia	North Korea Myanmar

Notes: The table corresponds with BTI data. Countries are listed in order of their Management Index scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

Once again, as in the BTI 2003 and 2006, South Korea and Taiwan are the region's top performers. In both states, political decision-makers' transformation management is characterized by high levels of steering capacity, resource efficiency and ac-

men in international cooperation. However, consensus-building in both has been deficient, as demonstrated by the governmental crises that have emerged in recent years.

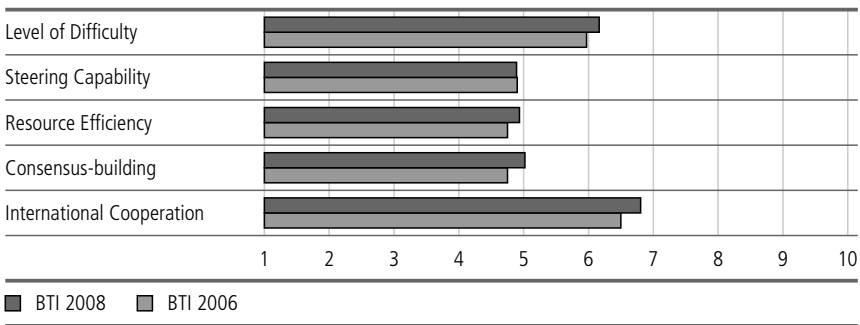
As in the BTI 2006, India and Singapore demonstrate largely successful management, albeit with some weaknesses. Whereas Singapore’s management of economic transformation is clearly successful, and despite the fact that its political elites have demonstrated strengths in dealing with ethnic conflicts and fighting corruption, elite management in the political sphere has served primarily to maintain the authoritarian system. Thanks to its successful management of certain economic issues, India is also ranked among the second highest group in management performance.

The third group comprising those countries with moderate management success, is also the largest in the region. Afghanistan, Indonesia, Pakistan, the Philippines, Sri Lanka and Thailand have been included in this group since the BTI 2006. China and Vietnam are also included here as states in which political decision-makers have focused exclusively on economic transformation while seeking to maintain the autocratic status quo by preventing potential spillover from affecting the political sphere. Finally, Nepal and Papua New Guinea are the newcomers to this group.

Bangladesh, Cambodia and Laos show major weaknesses in all areas of management. Nevertheless, the quality of management in these three countries is clearly better than that of Myanmar and North Korea, both of which serve as textbook examples of failing management on the part of political leaders and the powerful—often repressive—resistance to political liberalization found in autocracies.

Overall, management performance has improved slightly in the majority of the 20 countries already included in the BTI 2006 sampling. However, this improvement is only marginally apparent in the region’s overall scores. A closer look reveals isolated instances of an increasing level of difficulty accompanied by a slight decrease in political decision-makers’ steering capability. Scores for resource efficiency, consensus-building and international cooperation show slight overall improvement.

Figure 7: Management Index (N = 20)



All data = BTI score

As identified in the BTI 2006, steering capability, resource efficiency and consensus-building constitute the region's weak points in transformation management. Problems in consensus-building point to the relatively weak performance of Asia's political systems in facilitating political and social integration. Several of the countries in the region fail to use resources effectively; when combined with an underdeveloped rule of law, this hinders efforts to combat corruption. These are fundamental obstacles to achieving greater transformation gains, especially for states in the middle management category.

Deficits in this area extend to the inefficient utilization of financial and personnel resources, as well as to insufficient coordination capacities within governments. Scarce state resources are often distributed as spoils through patronage networks, and budget processes lack transparency. The military alone consumes a disproportionate share of available resources. With the exception of Singapore, corruption is one of the essential characteristics of administrative and political culture in Asian states. The situation is especially critical in South and Southeast Asia.

Governments and their capacity to manage change are also influenced by their involvement in various stakeholder and institutional arrangements and by the consequences of these arrangements across horizontal and vertical power networks. A regional overview shows that constitutional frameworks are relatively weak in providing effective checks and balances on a national government's ability to act. Unitary state models continue to dominate; these are characterized by highly centralized administrative structures, limited delegation of political authority to lower administrative levels, unicameral parliaments or asymmetrical bicameral systems, relatively weak judicial review and a lack of meaningful direct democratic elements. At best, most of the region's democracies maintain safeguards against constitutional changes through political majorities.

In addition, there is marked variation in the actual steering and implementation capabilities of national governments at the regional and local levels. As a result of idiosyncratic decentralization processes (Vietnam, China) as well as weak state-ness (Philippines, Indonesia, Pakistan, Papua New Guinea and Bangladesh), the depth and breadth to which the central state's steering attempts penetrate is limited in several states. In the case of Afghanistan, such attempts are almost completely absent.

Furthermore, decentralization measures in past years in Indonesia and the Philippines have shown that gains in efficiency or participation are significantly reduced whenever administrative decentralization is accompanied by the absence of monitoring mechanisms for corruption, rampant growth in local taxes and ordinances, insufficient resources or inefficient local administrations.

Steering capability in the democracies is influenced by structural features of the political system to a degree that autocracies and moderate autocracies (Singapore, Malaysia and Cambodia) are not. It is important to mention in this context that the management performance of several democratic regimes appears weaker at times because governing coalitions can suffer from weak internal cohesion, or competing

political majorities in the legislative and executive branches can block each other from making any progress.

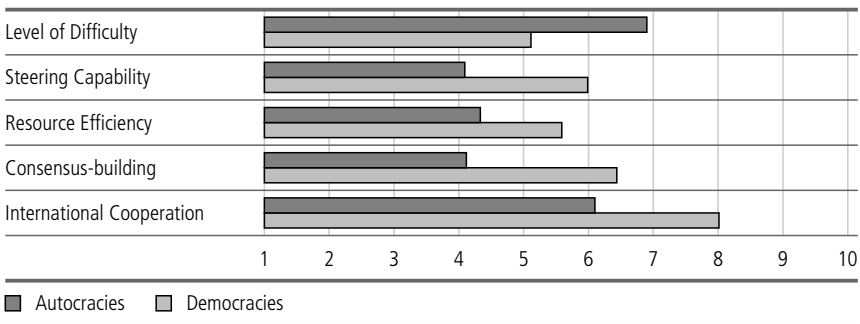
It should be noted that the leeway for successful transformation management is generally much narrower in autocratic regimes than in democracies, as a result of the significantly higher level of difficulty found in autocracies. In fact, a few noted exceptions notwithstanding, a glance at the key problems and success factors found in the region—such as the level of economic development, human capital resources, the intensity of ethnopolitical conflicts, the presence (or dearth) of civil society traditions as well as democratic institutions and practices—shows how fundamental are the challenges facing autocratic societies in the region.

Autocracies and democracies typically achieve the highest scores in the area of international cooperation—and this despite the two “pariah states,” North Korea and Myanmar. Irrespective of the high degree of social, political and economic heterogeneity in Asia, international cooperation remains an essential element of transformation management in the region. Asian states cooperate regularly not only in international, but also in several regional organizations such as ASEAN (Association of Southeast Asian Nations), ASEM (Asia-Europe Meeting) and APEC (Asia-Pacific Economic Cooperation), as well as in bilateral and multilateral agreements with Western governments.

International cooperation in the region has focused primarily on trade agreements with an eye toward economic transformation. Since 2001, international cooperation has exercised little effect on democratic transformation, especially in the context of cooperation between Asia and Oceania’s autocratic and democratically elected governments and the West in the latter’s efforts against terrorism. Indeed, in some cases, international cooperation in this context has had a negative effect on democratization.

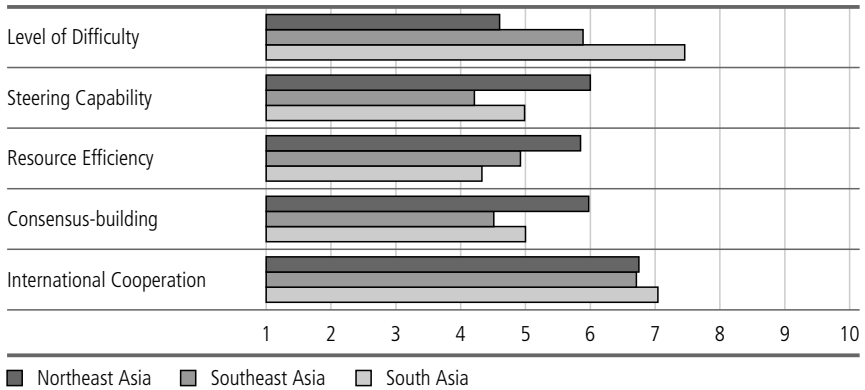
The South Asian states of Afghanistan, Bhutan, Bangladesh, Nepal and Pakistan have suffered from difficult conditions in which to pursue transformation, which is

Figure 8: Management performance by government type (N = 21 countries)



All data = BTI score

Figure 9: Management performance by subregion (2008, N = 21)



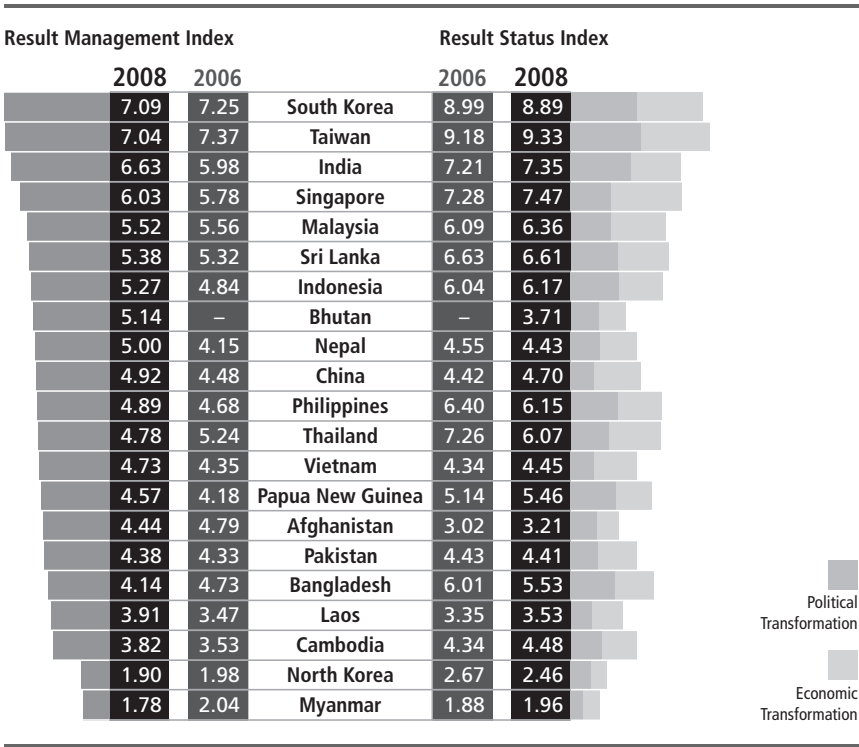
All data = BTI score

also reflected in high regional scores for the level of difficulty. But Southeast Asia also has countries like Cambodia, which has been significantly burdened with the legacy of genocide. And then there is Papua New Guinea, where the government’s ability to maneuver is limited by the state’s weak monopoly on the use of force and deep-running tribal and intercommunal conflicts. In contrast, the Northeast Asian states have profited from a much more robust level of stateness and a high degree of cultural, religious and ethnic homogeneity, as well as greater human capital resources.

Conclusions

In Asia and Oceania, progress in democratization has become rare in recent years. Political transformation has either stagnated or regressed in most of the region’s countries. Key problems include the tenacity of several defects already identified by the BTI 2003 and 2006 for South and Southeast Asia’s unconsolidated democracies, which has developed into a full-blown crisis of democracy in several countries. The rigid inflexibility demonstrated by hard autocracies such as Myanmar and North Korea represents another major problem. Even in the moderate or “soft-line” autocracies of Singapore, Pakistan, Cambodia and Malaysia, there is little evidence of improvement in the direction of democracy under the rule of law.

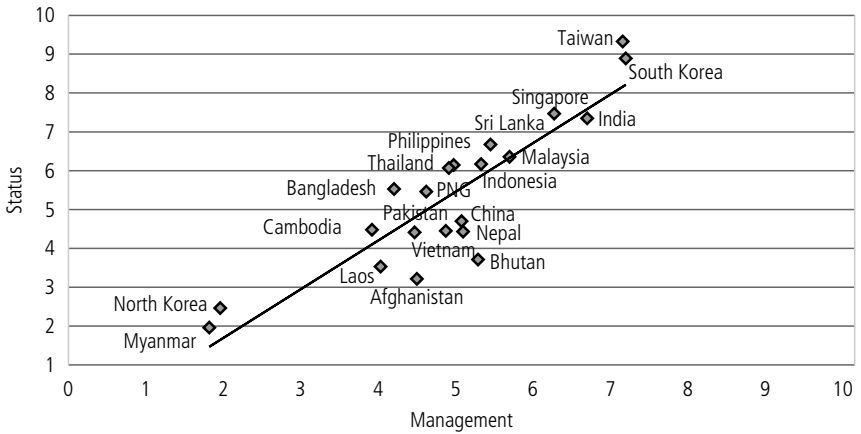
Measured in terms of the normative benchmarks and categories of analysis used in the Bertelsmann Transformation Index, economic transformation in the region receives higher marks than political transformation. Indeed, the trend toward economic transformation has consolidated further during the review period. The boom-



ing economies of India, China and Vietnam in particular have made progress. There have been no divisive domestic conflicts between the state and economic interests over the path of transformation to be taken, and there have been no battles over issues of economic distribution. Nonetheless, there is an obvious rift between the economically successful and unsuccessful states and subregions, and this gap seems to be growing. Overall, as the following illustration shows, BTI 2008 results confirm the supposition that political leadership’s management performance correlates closely with the level of transformation.

Taiwan, South Korea and—albeit somewhat less so—India are the only states in Asia and Oceania that stand out in terms of managing democratic and economic transformation. The region’s other “success stories,” such as Singapore, China and, to a limited degree, Malaysia and Vietnam, show a massive tilt within management performance toward economic transformation, which is carried out at the cost of fortifying or developing democracy. Results for the BTI 2008 suggest that little change should be expected in these countries, at least for the near future.

Figure 10: Management and transformation status



$R^2 = 0.7822$

All data = BTI score

Latin America and the Caribbean

An overview of development and transformation in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.



Continuity, reform and radical change define the highly heterogeneous development scenario in Latin America, where old and new political powers are attempting to overcome the legacy of incomplete transformation processes begun in the 1980s and 1990s. The continent south of the Rio Grande, which is to a large extent democratic, is gripped by an atmosphere of change, influenced by the economic recovery linked

to the boom in the world economy. There were 16 elections in an “electoral marathon” between November 2005 and December 2006, including election run-offs and 12 presidential elections. On the whole, these elections largely reaffirmed the trend toward relative democratic stability and growing economic dynamism. Latin America is still the second-strongest transformation region in the world behind East-Central and Southeast Europe.

The electoral marathon also confirmed the political rifts dividing the subcontinent. On the one hand, the conventional political landscape of social democratic and conservative politicians who advocate incremental political and economic reform was strengthened in many countries. On the other hand, however, the populist camp on the left grew under the aegis of the oil-rich Venezuelan President Hugo Chávez.

The balance of transformation throughout the subregions has remained roughly the same. While the lands of the Cono Sur (Argentina, Chile, Uruguay) and Brazil continued to stabilize with a slightly positive upward trend, problems in the five Andean countries (Peru, Bolivia, Ecuador, Colombia and Venezuela) have worsened. In comparison, Central America and Mexico can be considered stable, yet there are new signs of turbulence in the erosion of stateness and weak political management.

The political division of the region has affected economic transformation as well, which has been driven above all by an advantageous global economic climate and a new regional confidence. Having survived persistent aftereffects of the crises of the 1990s—which continued to weigh upon the region through the BTI 2006—Latin America seems now more than ever to have arrived in the 21st century and is able to look forward into the future.

This statement is obviously ambivalent. While nations like Brazil are working harder, despite extant deficits in the economic and social order to leverage the opportunities presented by international economic relations, other countries adhere to the slogan, “forward into the past.” This applies first and foremost to Venezuela, where Hugo Chávez—at least rhetorically—is striving for “21st-century socialism” (Shifter 2006). The governments of Bolivia, Nicaragua, Ecuador and Argentina are fairly open to Chavez’s anachronistic economic and political agenda, as are the oppositional political movements in a few other countries such as Peru and Paraguay. With very few exceptions, the subcontinent still faces the final litmus test of a successful economic transformation.

This new confidence has been expressed not least in changes in regional cooperation models. Within the region, new courses were set by the Chávez-led ALBA (Alternativa Bolivariana para los pueblos de Nuestra América) integration alternative and the reorientation of Mercosur. Hardly auspicious, these new forms of cooperation compete with free trade agreements—some already ratified or in development—with the United States, the European Union and Asian countries. For the time being, U.S. plans for a free trade zone that encompasses both North and South America have collapsed, and the United States’ political influence has clearly weakened. Nonetheless, the United States continues to play a key role in Central America, as well as in countries ravaged by drug wars and civil war, such as Colombia, Peru and Haiti. The

large neighbor to the north remains by far the region's most important trade partner, purchasing 50 percent of Latin America's exports.

The fact that governance in the BTI sense of steering transformation has improved somewhat could bode well for the future. However, governance throughout the region is being shaped just as much by the competing political currents on the continent and the unpredictability of their further development. In the coming years, social democratic governments will have the opportunity to demonstrate that goal-oriented reforms can be more successful in terms of social and political inclusion than the polarizing strategies of the populist left, which seeks to engage directly in a power struggle with the old political elites.

Transformation status: democracy

Political transformation in Latin America and the Caribbean has reached a level that clearly identifies the region as democratic—particularly in interregional comparison. The region's countries are second only to the transformation countries of East-Central and Southeast Europe, the majority of which are either EU member states or close to the European Union. However, this rather favorable verdict also embodies some ambivalence. What in some cases could be viewed as democratic stability might be described in other cases as the stagnation of democratic development. And in yet other countries, there are distinctly regressive tendencies.

During the period under review, there were a few developments and incidents that, along with a clearer profile of political currents, are significant for the democratic climate and the political development of the region:

- *The political shift to the left in the elections:* Overall, the left has once again grown stronger in the last few years. Voters have turned to leftist politicians, entrusting them to enact the necessary economic and social reforms. Given that strong conservative forces continue to be preoccupied with blocking reform in Latin American societies, this move towards the left may be a sign of the stabilization of democratic structures. However, it remains to be seen whether the rightist forces' acceptance of the leftist victories is due to their self-confidence in being able to block more comprehensive reforms, as is the case in Central America (Guatemala, El Salvador, Honduras and Panama).
- *The increasing attractiveness of populist-leftist or nationalist-leftist political options:* This shows that there are at least two different forms of leftism afoot in the region. While the social democratic variety corresponds with a modest reform program, the populist version is pushing for a more radical overthrow of social and political power relations, which could be supported by the present boom in natural resource exports and the redistribution capacity enabled by that growth (Schamis 2006).
- *The new political role of the indigenous population:* Twenty-five years after democracy was reestablished in Bolivia, Evo Morales became the first "indigena" to be elected

president. His victory reflects the “participative awakening” of the previously excluded populations in these countries and became an example to be followed elsewhere. In Guatemala, for example, Nobel laureate Rigoberta Menchú was a candidate in the presidential elections scheduled for September 2007.

- *The virtually effortless reelection of three political heavyweights*: Both the social democrat Lula da Silva in Brazil and the conservative Alvaro Uribe in Colombia were re-elected in the first round, despite rather middling political records marred by corruption, slow or hard-won reforms, and persistent violence. In contrast, Chávez’s reelection in Venezuela demonstrated how successful his efforts to divide Venezuelan society have been. Indeed, similar authoritarian political styles could emerge in other countries.
- *The continuity of the middle-left governments in Chile*: In power since 1990, the Chilean government suffered signs of wear and tear, but Michelle Bachelet did manage to awaken hopes for a new mode of conducting politics and greater social justice. For the first time, the “Concertación,” through its majorities in both chambers of parliament, had extensive political room to maneuver. Bachelet is the first female president in Chile and the third elected female president in Latin America, joining Violeta Chamorro of Nicaragua and Mireya Moscoso in Panama.
- *The electoral controversy in Mexico*: The legal and political contestation of the 2006 presidential elections by López Obrador, a challenger from the left, indicates not only a tendency to circumvent the democratic process, but also the increasing politicization of the electoral authorities in Mexico. During the transitional phase of the 1990s, the electoral authorities were accepted as the only neutral arbitrators in politics.
- *The comeback of three somewhat controversial presidents of the 1980s*: While the social democrat and Nobel laureate Oscar Ariás (Costa Rica) was elected because of his ability to provide a stable anchor for Costa Rican politics, Alan García (Peru) and Daniel Ortega (Nicaragua) are two politicians who had led their countries badly in the past and left chaos in their wake. Their return may suggest that they had been able to learn from their mistakes, but, above all, their return says a great deal about the stagnation of the political elites in some Latin American countries.
- *Haiti’s return to the democratic fold*: After the forced replacement of President Aristide, the U.N. stabilization mission MINUSTAH was able to provide support for mostly free and fair elections; however, the low-functioning democracy remains fragile and without a solid socioeconomic foundation.
- *Cuba after Castro*: Although the Caudillo has not quite left the stage yet, a partial transformation, from charismatic authoritarianism to a bureaucratic-authoritarian regime of modernization, seems irreversible. Though not in line with the BTI’s normative goals, a window of opportunity has opened up for the Cuban leadership to move toward an authoritarian system of state-centered modernization led by state elites (Thiery and Wierheim 2006).

These highlights illustrate that the variety of political development options in Latin America is increasing. However, over the course of the last three review periods

(2001–2003, 2003–2005 and 2005–2007), the quality of democracy in the region has remained, on average, nearly the same (Table 1), as positive and negative developments tend to cancel each other out on the assessment scale.

Uruguay, Costa Rica, Chile and Jamaica are generally stable, well-functioning democracies under the rule of law. However, Jamaica has lost some of its democratic quality due to the rising influence of criminal networks, especially in the “garrison communities.” In contrast to Jamaica, Chile scored much better because it removed all vestiges of its remaining authoritarian enclaves after the constitutional reform of 2006. The controversial Chilean electoral system, which privileges rightist political parties while excluding leftist parties de facto from parliament, is the last political institution inherited from the Pinochet era. Changes made to the constitution have made reforming the electoral system easier, which the Bachelet government is pursuing.

Table 1: Transformation status: democracy; BTI 2008

Democracies	Defective democracies		Highly defective democracies	Autocracies
(10 to 8)	(< 8 to 7)	(7 to 6)	(< 6)	(< 4)
Uruguay	Brazil	Paraguay	Guatemala	Cuba
Costa Rica	Argentina	Honduras	Colombia	
Chile	Panama	Nicaragua	Venezuela ▼	
Jamaica	Dominican Republic	Peru	Haiti ▲	
	Mexico	Bolivia		
	El Salvador	Ecuador		

Note: The table corresponds with BTI data. Countries are listed in order of their democracy scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

Of the region’s 21 countries, 12 are categorized as defective democracies in which civil liberties are limited by deficiencies in stateness and the rule of law, or in which the separation of powers is curtailed by the executive. This group of 12 can be subdivided into two groups that differ significantly in terms of the stability of their systems. Brazil, Mexico and Argentina, where more than 60 percent of the Latin American population lives, belong to the more stable group. This group also includes Panama and the Dominican Republic, which could slightly improve their ranking with better guarantees of civil rights. In the less stable group of democracies, in which democratic institutions face major challenges, Peru and Bolivia are most at risk of regression, especially in terms of stateness; the outlook for Ecuador has also become more ominous.

The third group, the highly defective democracies, includes four countries. Colombia and Guatemala, both suffering grave deficits in stateness and the rule of law as well as human rights violations, have been joined by Venezuela and Haiti. While Haiti’s 2006 elections helped it rise above the ranks of the autocracies, Venezuela fell

from its former ranking as a defective democracy. The increasing tendency toward the executive's monopolization on power, accompanied by the weakening of democratic institutions as illustrated by the development of parastate structures operating in parallel to state structures, accounts for Venezuela's slide on the ranking. The BTI thus classifies Venezuela as a (highly) defective democracy that is on its way toward becoming an electoral autocracy.

Cuba is the only country in the region that is currently classified as autocratic. Fidel Castro's (temporary) resignation from his state offices has not improved prospects for democracy, nor has it yielded any signs of democratic transformation. Cuba's transition to a bureaucratic-authoritarian leftist government has profited from the support of Hugo Chávez, as well as favorable conditions in the world economy and global politics (Hoffmann 2007). In June 2007, Cuba was eliminated from the UN Human Rights Council's special watch list; however, Cuba, along with other states that have violated civil rights, is also a member of the council.

The average of the five democracy criteria shows no significant change in comparison with the BTI 2006. The region has made very little progress in political transformation, since negative and positive changes tend to balance each other out in the assessment scale. The fundamental institutional deficits in Latin American democracies remain the same: the state's weakening monopoly on the use of force, antiquated administrative structures and above all deficiencies in the rule of law.

Increasingly weak stateness

Though not reflected in all of the scores, problems with stateness have grown in the last two years. Although the stateness score is the highest among those given for the democracy criteria, the high scores for "state identity" and the "no interference of religious dogmas" conceal the fact that the dismantling of the state's monopoly on the use of force, as well as the poor functionality of state administration, are hindering political and economic transformation.

Colombia and Haiti, both affected by ongoing or recent civil war, are special cases. There have been some improvements, due in part to massive foreign support. In Colombia, President Uribe was able to point to some successes in the context of the continuation of his Plan Colombia, a so-called strategy for "democratic security," such as a sinking murder rate and a lower number of kidnappings and massacres; however, he remained incapable of securing the state's monopoly on the use of force in large parts of the country. In Haiti, the U.N. peacekeeping force MINUSTAH was able to secure the state's monopoly on the use of force, although not definitively.

There have been glaring deteriorations in Jamaica (increasing organized criminal activity), Peru (drug mafia, higher levels of violence) and Bolivia (regional conflicts). Indeed, in almost all of the other Latin American and Caribbean countries, democratic governments are facing increasing difficulty in securing the state's monopoly on the use of force to ensure the security, and indeed the lives, of their citizens

(Thiery 2007a). Only five states in the region have secured their monopoly on the use of force.

Table 2: Ensuring the state’s monopoly on the use of force in Latin America and the Caribbean

10	9	8	7	6	5	4
Chile	Dominican Republic	Argentina	<i>Brazil</i>	Bolivia* ▼		<i>Colombia*</i> ▲
Costa Rica		Ecuador	El Salvador	<i>Guatemala</i>		<i>Haiti</i> ▲
Cuba		<i>Jamaica</i> ▼	<i>Mexico*</i>	<i>Honduras</i>		
Uruguay		<i>Venezuela</i>	Nicaragua	Peru* ▼		
			Panama			
			Paraguay			

Scores reflect BTI values. ▲/▼: Changes in comparison with BTI 2006; Countries with massive organized violent crime are listed in italics; * = countries especially affected by drug production and trade.

Latin America’s stateness problems are multifaceted and multilayered and have been aggravated in the wake of democratic transformation. Above all, the historically reduced scope of the state has led in the last two decades to a syndrome in which the “privatization” of the state’s monopoly on the use of force accompanies the lack of sufficient state protection for the underprivileged classes, organized crime’s penetration of the state apparatus and the unrestrained expansion of the drug mafia. Additionally, state administrative structures are persistently weak as a result of insufficient professionalism and widespread clientelism.

The problem of organized crime associated with the production and distribution of drugs has worsened, including explosively violent crime. In addition to the traditional drug countries in the Andes, Central America and Mexico (the transit points for the cocaine trade in the United States) have been profoundly affected, and the Caribbean nations are also suffering from growing organized crime.

Mexico’s President Calderón experienced the vehemence of the violence-prone drug cartels and corrupt bureaucrats. Faced with rapidly escalating violence that resulted in a de facto war between state security forces and organized crime, Calderón was eventually compelled to send in the military; to date he has not been able to point to a decisive breakthrough. In Central America, the drug trade has exacerbated the already high level of violent crime associated with the problem of transnational criminal youth gangs (UNODC 2007; Bodemer 2003). This darkens the outlook for economic and social development in an already impoverished region.

Consolidated political participation

The consolidation of the right to political participation is without a doubt the great strength of the Latin American democracies, even if there is a shadow side to this development. All of the region’s governments—including 19 presidents, one of them

female (Chile), and a prime minister (Jamaica)—were elected in free and fair elections, with the exception of Cuba. The quality of elections, with a few positive exceptions such as Haiti, has decreased since the BTI 2006 (BTI 2006: 8.24; BTI 2008: 8.05). Political developments in Venezuela and events in Mexico have given rise to doubts about the political elite's acceptance of political institutions. While the military is no longer a veto power, in some countries, such as Guatemala, there are powerful groups operating as parallel structures to the state, thereby undermining the state's effective power to govern.

Association and assembly rights have developed in a positive direction. Rights of political participation are notably limited in Cuba as well as Colombia, Guatemala, Paraguay, Ecuador and Venezuela. Overall, the exercise of these rights has increased, which has led to massive mobilizations, especially in the Andean countries—an invigorating element of democracy, to be sure, but one that has also opened up greater opportunities for circumventing democratic institutions. The necessary integration of rights of participation in the rule of law and the constitutional state are under threat. The potential for destabilization continues in the context of further characteristic deficits, such as the weakness of representative structures (especially the political party system) and long-term neglect of large parts of the population.

Free speech and freedom of the press improved slightly on average, although in some countries state intervention has strangled the public sphere (Venezuela), and in other countries the collusion of organized crime and state corruption has undermined it (Colombia, Mexico, Guatemala, Honduras, Haiti). Measured by the number of murdered journalists, Colombia and Mexico, with its uncontrollable power structures at the regional and local levels, are the most dangerous countries for independent journalism.

Rule of law

The main problem facing Latin American democracies, next to the erosion of statehood, remains a weak rule of law. Establishing the separation of powers, including the independence of the judiciary, is either stagnating or in regression (Argentina, Bolivia, Ecuador, El Salvador, Nicaragua and Venezuela). In the majority of these cases, the concentration of power and the weakness of state institutions were either endured by large parts of the population or even lionized, since a strong executive promises more immediate advantages.

Only Uruguay, Costa Rica, Chile and, with some exceptions, Jamaica are fully functional constitutional democracies, while Brazil has been able to make some limited progress. The rule of law in the other countries can scarcely be described as functional, with varying degrees of defective checks and balances, a lack of judiciary independence, and limited civil rights. The absence of checks on political power is attributable not only to the traditionally weak separation of powers and the demand

for strong state leaders, but also to the intentional pursuit thereof, especially in Venezuela and Argentina (Thiery 2007b). Not to be overlooked, however, is the fact that civil rights were strengthened slightly overall.

In regard to rampant corruption, three countries (Brazil, Haiti and Paraguay) have made progress in combating the abuse of office, although at a dismal level: Of all 18 values given for the state of democracy, this average (5.3) is by far the worst, and the only one under the scale's midpoint (5.5). In a majority of the democracies, the combination of organized crime and the dismantling of checks and balances threatens increasingly weak democratic institutions and undermines the population's consent to democracy. For some countries, this will become problematic if the political output expected of the government cannot be sustained. Only Chile, Uruguay and, conditionally, Costa Rica are secure from this threat.

The precarious stability of democracy

These tendencies in political and ideological development, as well as the varying consolidation of political institutions, are reflected in the degree of stability and the consolidation of the democracies. Only Uruguay and Costa Rica qualify as consolidated, as does (albeit with some reservations) Chile, which still has to face some major challenges, such as electoral reform. There has been recognizable progress toward consolidation in Brazil, the Dominican Republic and Paraguay, and noticeable regression in Ecuador and Venezuela. Democratic stability remains precarious in Central America—especially in Guatemala—and in the Andean states and Haiti, despite a slightly upward trend.

The sociopolitical embeddedness of democracy in about half of the countries must be considered weak, particularly since political turbulence—where not already present—is likely in the coming years. This stabilizing embeddedness is at hand only in Uruguay, Costa Rica and to a slightly lesser extent Chile, where civil society is still defining a new role for itself in the wake of the post-Pinochet era.

Consolidation dynamics in Latin America depend very much on the varying quality of the party systems, which influence how representation structures function as intermediaries between the state and society and shape political decision-making. The highly differing degree of institutionalization among the party systems is related to the positive and negative learning processes that the political elites have experienced during and after political transition, which results in different cultures of cooperation and confrontation (Schamis 2006). In Chile and Uruguay, a relatively orderly political process has been the order of the day thus far.

In the Andean countries and in Argentina, where after 1983 the quasi-two-party system of Peronists and Radicals has successively crumbled, the weakness of both representational structures and the party system lies in its interaction with a political decision-making process dominated by an erratic, isolated executive. The leftist Peronist Kirchner's style of governance did not differ significantly from the leadership

of the neoliberal Peronist Menem in the early 1990s. This situation is worse in countries where the party system has partially or completely collapsed.

The weakness of party systems is not the least of worries for the evolution of consolidation-promoting civil societies in Latin America, since the channels for aggregating societal demands are insufficient. Together with societal segmentation and cleavages, this leads almost inevitably to radicalized mass mobilizations. The seemingly powerful civil societies of Bolivia, Ecuador and Peru are often expressions of broad-based anti-institutional politics. Civil societies with social self-organization and a stable civic culture are found only in countries that can look back on a long democratic tradition or can rely on a relatively advanced development (along with Uruguay, Costa Rica and Chile, Argentina and Brazil can be included in this group).

Transformation status: market economy

During the period under review, the Latin American economies have almost all profited from advantageous developments in the world economy. Strong international demand and climbing raw material prices benefited the oil- and natural gas-exporting countries of Venezuela, Ecuador and Bolivia. Agricultural exports in Argentina and Brazil, as well as mineral exports in Chile, Peru and Cuba, have also experienced high growth rates. The Latin American countries have thus continued their economic performance of 2003–2005 and can put the “six lost years” (“sexenio perdido,” 1997–2003) behind them.

However, little of these gains has been translated into strengthened sociopolitical safeguards in these countries’ economies, which is a direct consequence of the various economic and political strategies pursued by individual governments. In fact, Venezuela and Bolivia (since Evo Morales came into office) have pursued economic policies that strengthen the state’s role as an economic actor and disregard the basic principles of a sound economic policy.

The economic heavyweights Argentina and Mexico have, for very different reasons, not wanted or been able to use the opportunities created by the economic boom for further reforms or investments in economic sustainability. The average index value of economic transformation in Latin America has improved slightly, but this is almost exclusively due to the stronger performance of the region’s economies, not the consolidation of fundamental institutional structures.

With the exception of Cuba, where the regime has profited from favorable international frameworks and was able to once again stabilize the state-directed economic system, the economic systems of the Latin American countries are fundamentally oriented towards economics. Also, in Venezuela—this should not be overlooked among all the negative trends—the private sector accounts for about 60 percent of GDP and up to 70 percent of formal employment. Structural problems, especially in the poorer countries, along with path dependency and missed trajectories, have contributed to the overall stagnation of development toward a market economy with soci-

opolitical safeguards. They have also shaped the quality and reach of these “social market” economies, which vary considerably from state to state.

Chile has maintained its lonely position at the top with its solid economic framework and relatively high economic performance, which has also prepared the terrain for greater equality of opportunity. Although Chile has been ranked among the highly developed countries by the Human Development Index, the Chilean elites have not yet managed to substantially alleviate the country’s severe social inequality and thereby exploit the country’s full development potential. Chile’s welfare regime, which shows solid institutional design, fares quite well in intraregional comparison but is nonetheless one of the greatest weaknesses in an otherwise high-performing country. The BTI identifies sustainability as Chile’s greatest weakness. Particularly lacking is a strategic approach to education and research, which has become a central issue of conflict in the Bachelet era.

Table 3: Transformation status: market economy; BTI 2008

Developed market economy	Viable or functioning market economy	Market economy with functional flaws		Poorly functioning or rudimentary market economy
		(< 7 to 6)	(< 6 to 5)	
(10 to 8)	(< 8 to 7)	(< 7 to 6)	(< 6 to 5)	(< 5 to 3)
Chile	Costa Rica Uruguay Brazil Mexico ▲ Panama ▲	Argentina El Salvador Jamaica Colombia Peru Dominican Republic ▲	Honduras Paraguay Nicaragua Ecuador Cuba ▲ Bolivia	Guatemala Venezuela Haiti

The table corresponds with BTI data. Countries are listed in order of their scores for the status of market economy. Arrows indicate movement to a higher or lower category for the BTI 2008. For details on Cuba’s categorization as an “economy with functional flaws,” see the explanation below.

Along with Chile, only Costa Rica, Brazil and Uruguay have relatively functional market economies, even though their profiles differ. Uruguay and Costa Rica possess well-developed social welfare institutions, and in the context of Latin America, both countries demonstrate relatively little inequality. In terms of macroeconomic stability, and above all in research and education, however, their performance is noticeably weaker. Costa Rica nevertheless has the best-developed environmental policies.

In Brazil, however, social inequality remains profound, and social welfare structures are weakening, comparatively. Ironically, under the social democrat Lula de Silva, who faced an uncertain economic climate before his 2002 presidential election victory, Brazil has performed extremely well concerning macroeconomic stability. In strong contrast to Costa Rica, Brazil and Uruguay, Mexico and Panama improved slightly in terms of their economic performance and macroeconomic stability, but they failed to accomplish any decisive breakthroughs.

The market economies in the majority of the region's countries—12 out of 21—are marked by more or less considerable functional deficits. Two subgroups can be differentiated on the basis of their development dynamics and their prospects for further development. The first group includes small countries with limited economic performance but a relatively coherent economic framework (Jamaica, El Salvador and the Dominican Republic) as well as those countries that, due to the size of their economies, are less susceptible to economic fluctuations (Argentina, Colombia).

The second subgroup is made up exclusively of small countries that continue to struggle with significant structural problems. In addition to Paraguay, this group includes two countries in the Andes and two in Central America. They all suffer from continuing high rates of poverty and a moderate level of development, a large informal sector and grave structural deficits in infrastructure and social welfare systems. While five countries in this group managed to improve their status in the economic transformation category, in Bolivia this trend is turned on its head, due to the fact that central institutions such as market regulation and private property have weakened.

In contrast to the BTI 2003 and BTI 2006 scores, Cuba currently finds itself within this group, resulting in its somewhat misleading characterization as a “market economy with functional flaws.” In fact, Cuba has made some economic progress, which, with talented management, could be developed further. The driving force behind this development, in addition to Venezuela's support, is doubtless the Cuban economy's relative opening to global markets. Cuba is competitive in certain product and service markets, including nickel, biotechnology and medicine (Hoffmann 2007).

However, Cuba's economic framework reflects anything but a market economy. In fact, some of the moves to liberalize aspects of the state-directed economy, such as in foreign trade or financial transactions, have been rolled back in recent years. Cuba's ranking is explained in part by its relatively high development status (measured in terms of the HDI), the present economic boom and the resultant opportunities for stabilizing the state's social welfare infrastructure.

At the tail end of economic development are Guatemala, Venezuela and Haiti. Haiti—by far the poorest country in the hemisphere, and still wracked by the political turbulence of recent years—suffers from extremely low socioeconomic development, limited economic performance and an immense informal sector. Despite the presence of U.N. peacekeeping troops, state institutions remain fragile. Massive IMF support has helped consolidate the country's economic framework somewhat. Though Haiti has managed to garner some benefit from the international boom, its economic dynamic is too weak to carry the country forward toward self-sustaining development.

Venezuela remains a much-discussed, paradigmatic case of a decidedly anti-economic policy based on oil revenues. Although Hugo Chávez envisions a model of “21st-century socialism,” he remains trapped in a “leftist” version of classic Venezuelan clientelism. Venezuela's low rank can be attributed exclusively to political decisions that, however, constitute what the BTI defines as failed transformation man-

agement. Venezuela has therefore fallen behind Cuba, which has shown considerable strengths in its welfare regime and in sustainability. The institutional framework for a market economy has deteriorated in Venezuela, and the dependence on state subsidies for economic growth has increased.

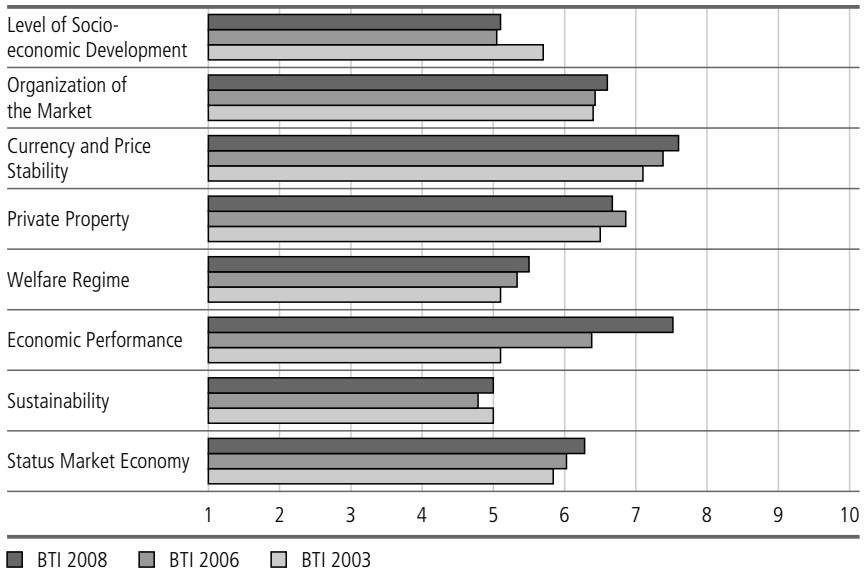
The positive and negative trends seen in these economies have resulted in an economic performance profile for the region that has scarcely changed. As is the case in most other transformation regions, the output strength of these economies constitutes an exception. As resource-rich countries, they are able to profit from favorable global economic conditions. The focus on macroeconomic stability is Latin America's only other relative strength and has become a firm component of economic policy in almost all cases. However, the traditional building blocks of a solid market economy, such as competition, currency and price stability and private property rights, have yet to be cemented.

The exception here is Chile, which is the only country in the Latin American and Caribbean region that can compete with the top performers in the BTI (the average score for "market-based competition," "macrostability" and "property rights" was 9.9). El Salvador (9.0) and Brazil (8.8) have improved in this area, followed by Costa Rica, Jamaica, Mexico and Peru. The relative strength of the economic framework among the market economies should be seen in most cases as a direct result of the Washington Consensus. Only five countries deviate from this trend. Venezuela, Guatemala, Haiti, Cuba and Ecuador have thus been categorized as dysfunctional in terms of economic development.

The profile of Latin America's market economies shows the fragile level of socioeconomic development achieved, which has shown no improvement since the BTI 2003 and constitutes a major obstacle to further development due to the effects of exclusion and poverty. The status quo of socioeconomic development (similar to that of the HDI) and the measure of social inequality (measured similar to the Gini Index) were considered together for this assessment. Economic development is stymied by an inequitable distribution of opportunity if a significant sector of society lacks opportunities for market participation. Together with insufficient resources, this inequitable distribution of opportunity reproduces conditions of poverty and social exclusion, as the World Development Report 2006 accurately states (World Bank 2006).

Only Costa Rica and Uruguay, thanks to their long traditions of sociopolitical safeguards and their ability to mitigate inequality, exhibit a socioeconomic level of development that extends opportunities and freedom of choice to most citizens. In Chile and Argentina, the average citizen has access to higher income, but either structurally embedded inequality—a legacy of the Pinochet era—reduces opportunities, or diverse crises have drastically increased poverty. Discrimination and exclusion of more or less large portions of the population has remained a mark of social development in Latin America, extending from "first-world" enclaves, such as southeast Brazil or the wealthy areas within large cities, to "fourth-world" economies, such as Haiti. Attempts to justify radical reform policies are understandable in this context.

Figure 1: Performance profile: market economies in Latin America



All data = Regional BTI average scores

The bars above represent average scores given for the individual criteria used to assess the transformation status of economic development in the BTI 2008, BTI 2006 and BTI 2003. To facilitate comparability, scores given for the BTI 2003 were converted to the BTI 2006 and BTI 2008 scale.

It remains to be seen whether these “new” economic and social policies, which are based more on assistance and distribution than on the productive integration of the poor into market development, will prove successful as transition phases. Their inconsistency and lack of transparency have justifiably raised serious doubts. But one should not overlook the fact that sociopolitical measures in most of the other countries, such as the Lula government’s social programs in Brazil, have not addressed deficiencies in institutional arrangements aimed at facilitating social equality, nor have they achieved any social progress. Except for Costa Rica and Uruguay, only Chile—keeping in mind the aforementioned reservations—can point to a social welfare state worthy of the name. In the other countries, segmented welfare regimes further cement social differences and the already limited availability of development opportunities for large portions of the population.

Along with the level of development, sustainability is a weak spot in economic transformation within the region. Despite increasing environmental awareness, environmental sustainability policies are subordinated to economic policies meant to drive growth. Education expenditures are even more problematic in Latin America. Despite slight increases in education spending, these measures have only buttressed

the effects of inequality or ensured its perpetuation, especially since most of the high-quality educational institutions are private. Deficits in Chile's education and R&D facilities constitute the Achilles' heel to the country's continued economic success. Despite increased expenditures, there have been no tangible improvements—one of the reasons for the powerful student protests against the Bachelet government shortly after it assumed office in 2006.

Transformation management

Since the structural reforms in line with the Washington Consensus, Latin America is the only region apart from East-Central and Southeast Europe in which transformation management, since its inception in the 1980s, has been aimed at the simultaneous pursuit of economic and political reforms. This holds largely true for Chile, where a portion of, although not all, economic and social reforms were implemented under the Pinochet dictatorship. Having dug in its heels in resisting reform, Cuba is the only country that is not a part of this phalanx. The difficulties inherent in achieving the dual goals of economic and political transformation simultaneously are exacerbated by the need to implement reforms in the face of firmly established interest groups able to block new policies. Also, unlike in East-Central Europe, the bureaucracy in several Latin American and Caribbean countries was and is ill equipped to implement such reforms.

Political strategies that no longer entail the dual goal of economic and political transformation simultaneously have gained ground in recent years. In addition, new social movements have emerged in some countries and mobilized, sometimes radically, to resist further reform. In some cases (Bolivia and Ecuador), these movements have won seats in the government, while in other countries, such as Peru, they have exercised political pressure on the more moderate governments.

The average score given for transformation management in Latin America shows slight improvement, from 5.27 to 5.39. This increase is even smaller if methodological changes are taken into account.²² The political changes mentioned at the outset of this chapter include a wide range of reform strategies that translate into a wide variance in transformation management spanning the entire scale (Table 4). More than half of the countries have improved with passable management ("successful management with weaknesses"). However, the differences within this group are considerable, and the new members of this group just barely passed the bar.

22 In the BTI 2008, the question "development of social capital" has been removed from the criterion "consensus-building." As most of the region's countries had received relatively low scores for this question in the BTI 2006, their overall score for the criterion "consensus-building" in the BTI 2008 has increased slightly.

It fits the trend that three states—Venezuela, Cuba, Ecuador—have decidedly poor leadership. In between is a middle group consisting of six countries in which the political elites were only partly successful, such as the politically impotent Bolanos government which nonetheless won some economic and social policy victories. Overall, these countries could not fundamentally alter their course of development. Haiti improved its ranking in political transformation management with its mostly free and fair elections, while Bolivia dropped slightly in the ranking.

Table 4: Quality of transformation management, BTI 2008

Successful management	Successful management with weaknesses	Management with moderate success	Weak management	Failed or nonexistent management
(10 to 7)	(< 7 to 5.6)	(< 5.6 to 4.3)	(< 4.3 to 3)	(< 3)
Chile	Uruguay Brazil Costa Rica El Salvador Argentina ▲ Mexico Panama Jamaica Peru ▲ Paraguay ▲ Dominican Republic ▲	Nicaragua Colombia Guatemala Honduras Bolivia Haiti ▲	Ecuador	Cuba Venezuela

Notes: The table corresponds with BTI data. Countries are listed in order of their Management Index scores. Arrows indicate movement to a higher or lower category for the BTI 2008.

Table 4 shows continuities and discontinuities in the quality of management in comparison with the BTI 2006. With the same management score as in the BTI 2006, Chile succeeded in maintaining its rather lonely position at the top—and also in rising to top performer in the entire BTI 2008 Management Index Chile, which has the capacity to enhance the equality of opportunity, has nonetheless taken a few strategic missteps along the way under both the Lagos and Bachelet governments. For example, the political elites’ tendency to pursue technocratic solutions has been increasingly criticized for not addressing sociopolitical concerns adequately.

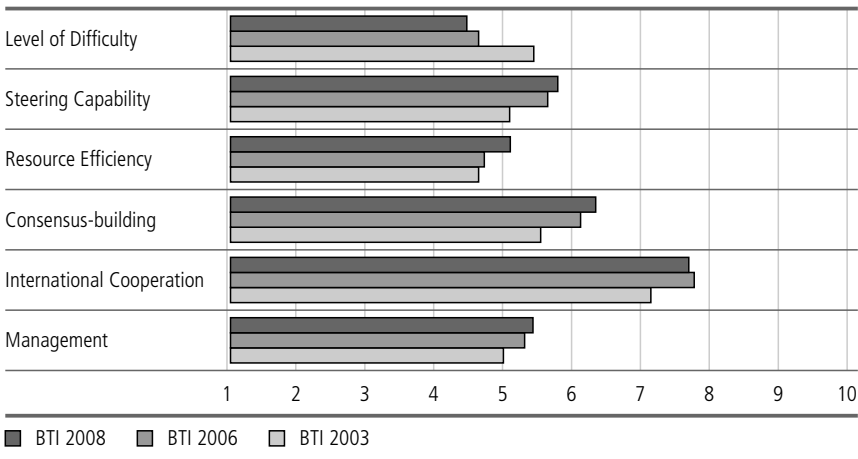
In Uruguay, Costa Rica and Brazil, and to some extent in El Salvador, the governments have displayed solid management; they either preserved the transformation successes in their countries or slightly expanded upon them. In Brazil, where some members of government and the ruling party were enveloped in corruption scandals, there was a slightly noticeable impairment of steering capacity. However, for the majority of Brazilians, President Lula da Silva was still the better alternative. The

other countries of this second group—above all Argentina, which has shown considerable improvement—are still a long way from genuine “good governance” and have found themselves under leadership characterized by modest management.

If one excludes Haiti, the countries in the middle group have not met the expectations that they had inspired in the BTI 2006. In Colombia, President Uribe led the difficult political process forward to break through the stalemate in the country’s violent conflicts. All in all, his successes have been either poor or ambivalent, as the reintegration of paramilitary forces and the accompanying accusations of corruption show. The Berger government in Guatemala has also not managed to sustain its earlier verve and has not been able to fulfill its electoral promises. Social tensions, linked with growing discontent, have continued to rise and could lead to a political seismic shift, as in Bolivia.

The greatest improvement in management quality, although it started at a very low level, was in Haiti (+1.65), where the newly elected government of President Préval has provided more consistent political leadership than the transitional government of Latortue. Tangible improvements were also seen in Paraguay (+0.78), where the Duarte government was able to continue the upward tendency identified in the BTI 2006. Its primary strengths were in the areas of policy coordination and the fight against corruption. Bolivia (−0.56) and Venezuela (−0.88) showed the greatest regression. While Bolivia continues to deal with a difficult period of upheaval, in Venezuela, priorities that are diametrically opposed to liberal democracy and a market economy flanked by sociopolitical safeguards have taken the upper hand. Venezuela has fallen far behind the authoritarian Cuba, which demonstrated advantages in resource efficiency.

Figure 2: Latin America’s management profile in comparison



All data = BTI score

Despite a slight upward trend, the average score for resource efficiency has remained by far the worst; two of the three component scores are the lowest scores within the entire Management Index for the Latin American countries. The differences in performance are also quite visible here (Chile at 8.7, far ahead of Costa Rica at 7.0, Ecuador and Haiti at 3.3, and Venezuela at 2.7). Overall, however, the moderate success with resource utilization remains one of the essential obstacles to greater transformation gains. Year after year, less-efficient utilization of financial and personnel resources, the lack of coordination capacity in the governments and the inability to combat corruption have piled up a kind of “negative capital” for the next generation. Only Chile utilizes its resources at a level of efficiency comparable to that of East-Central European countries or South Korea and Taiwan.

Clearly, the problem of corruption is a stain on democratic and economic transformation. Only Chile and, to a lesser degree, Uruguay and Costa Rica have made serious attempts to combat corruption. Despite years of attempts, campaigns and popular protests, only a very few countries (such as Paraguay) have achieved even marginal improvement.

Overall, the development of a more stringent fight against corruption has stagnated. Despite growing awareness among both the population and parts of the political elite, the mechanisms needed to ensure integrity have not been established or have not been effectively implemented. In some countries, exemption from punishment—“impunidad,” impunity—remains the rule and not the exception. The hope that the critical stance of Argentine citizens after the great crisis of 2001–2002 would translate into a new political culture has not been fulfilled.

As mentioned earlier, the cooperation models within the region have begun to change. In the logic of the BTI, not all forms of international cooperation are considered positive; to qualify, they must promote democratic and economic transformation. These changes in cooperation models are expressed to some degree in the criterion “international cooperation,” which is the only one of the management values that is somewhat lower than in the BTI 2006.

Bolivia has experienced the worst loss due to its conflict with its neighbors over primarily energy questions, followed by Nicaragua and Venezuela. But also other countries, for example Mexico and Uruguay, have exhibited weak cooperative performance for different reasons. Nevertheless, international cooperation counts among the strengths of management in Latin America. Considering the integration of Venezuela and its partners, the moderate policies of Brazil and Chile offer hope for the future.


Conclusions

In the last two years, although overall progress in Latin America has been quite moderate, there have been a few singular successes on the path toward democracy and a market economy. As the individual analyses show, the region has come under the

Result Management Index

Result Status Index

2008		2006		2006	2008	
7.52	7.51		Chile	8.85	8.99	
6.93	6.85		Uruguay	8.66	8.90	
6.70	6.86		Brazil	7.84	7.90	
6.70	6.63		Costa Rica	8.70	8.73	
6.27	6.24		El Salvador	7.00	6.99	
5.81	5.41		Argentina	7.21	7.34	
5.81	6.03		Mexico	7.13	7.30	
5.79	5.65		Panama	7.10	7.42	
5.76	6.02		Jamaica	7.58	7.65	
5.76	5.28		Peru	6.57	6.60	
5.73	4.95		Paraguay	5.85	6.14	
5.65	5.28		Dominican Republic	6.36	6.80	
5.57	5.10		Nicaragua	5.88	6.08	
5.11	5.25		Columbia	6.10	6.21	
5.05	5.01		Guatemala	5.27	5.43	
4.99	5.13		Honduras	6.04	6.09	
4.73	5.29		Bolivia	6.07	5.75	
4.49	2.84		Haiti	3.28	4.08	
3.75	3.68		Ecuador	5.65	5.75	
2.94	2.62		Cuba	3.93	4.37	
2.15	3.03		Venezuela	5.55	5.15	



Political Transformation

Economic Transformation

increasing pressure of political divisions, resulting in victories and losses that cancel each other out in the scores given. Stability is thus accompanied by both stagnation and regression. In the context of democracy, the failed implementation and selective annulment of the rule of law remain problematic. Such deficits have increased rather than decreased since the onset of democratization. This underscores the fact that these deficits are not merely the relics of authoritarian regimes that dissolve over time, but rather are evidence that defective democracies have managed to strike a precarious balance in the quality of governance (Thiery 2006b).

In the context of economic transformation, whereas there are further improvements in performance accompanied by a slight trend towards the consolidation of market economy, conflicts over the social design of these economies have become more severe. A more specific profiling of different political camps has provoked different, competing political concepts of the “proper” relationship between the market and the state. Different from the Washington Consensus of the 1990s reform era, the Post-Washington Consensus is obviously not only being formulated on the drawing table, but must also find its contours through political confrontation.

Clearly, the pallid willingness to reform in many countries—and in some cases the rollback of reforms—poses particular challenges to development in general. This also has to do with the limited socioeconomic successes yielded by the economic

reforms of the 1980s and 1990s. The exhaustion of the old paradigm has contributed to the political changes discussed here. Several leaders (Chávez, Morales, Kirchner) have taken the offensive in thematizing the constellation of socioeconomic problems and sociopolitical disparities. As a result, functioning democratic and economic institutions, which are often embroiled in political power struggles, are increasingly given low priority on the political agenda.

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Frequently Used Acronyms and Terms

ADB	ADB Asian Development Bank
ACP	Countries in Africa, the Caribbean and Pacific with ties to the European Union through the renewed Lomé Convention agreement.
APEC	APEC Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
AU	African Union
CEFTA	Central European Free Trade Agreement (Bulgaria, Poland, Romania, Slovakia, Slovenia, Czech Republic and Hungary)
CEEAC	Communauté économique des états de l’afrique centrale (Economic Community of Central African States)
CEMAC	Communauté économique et monétaire africaine (Central African Economic and Monetary Union)
CEPAL	Comisión Económica para América Latina y el Caribe (United Nations Regional Economic Commission for Latin America and the Caribbean)
CIS	Commonwealth of Independent States
Corruption Perceptions Index	An index from the NGO Transparency International that ranks countries by their perceived levels of corruption as determined by expert assessments and opinion surveys.
EAC	East African Community
EBRD	European Bank for Recovery and Development
ECOWAS	Economic Community of West African States
EU	European Union
Freedom House	An international NGO promoting democracy and freedom; publishes “Freedom in the World”
GCC	Gulf Cooperation Council
GDI	Gender-related Development Index: A composite index measuring the three indicators captured by the HDI and adjusted to account for inequalities between men and women
GDP p.c.	Gross Domestic Product per capita

Gini coefficient	Measures income inequality in a society with values from zero (perfect equality) to one hundred (perfect inequality).
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (an international cooperation enterprise for sustainable development, based in Germany)
HDI	Human Development Index: Measures the standard of living in a state based upon indicators of the average life expectancy at birth, literacy rate and per capita purchasing power; index values range from zero (lowest) to one (highest)
HDR	Human Development Report; annual UNDP report on development in the world
HIPC	Highly indebted poor countries
IMF	International Monetary Fund
Mercosur	Mercado Común del Cono Sur (Southern Cone Common Market, a trading zone among Argentina, Brazil, Paraguay and Uruguay)
MINUSTAH	United Nations Stabilization Mission in Haiti
NEPAD	New Partnership for African Development
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
PPP	Purchasing power parity
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Papers: World Bank program to develop partnership-oriented strategies with the participation of civil society aimed at reducing poverty
UEMOA	Union économique et monétaire ouest africaine (West African Economic and Monetary Union)
UN	United Nations
UN Education Index	Measures the education level of a state; index values range between zero (lowest) and one (highest)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WTO	World Trade Organization

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The Bertelsmann Transformation Index is built upon the 125 country reports included on the enclosed CD-ROM. Reports are written by country experts and submitted for review to another expert. Thanks are extended as well to experts at the Friedrich-Ebert Stiftung, Konrad-Adenauer-Stiftung and the GTZ who reviewed and commented on several reports. Seven regional coordinators as well as the BTI Board members then modified and adapted the reports. The BTI is made possible by the professional contributions of the following international scholars and experts:

Sigrun Aasland, Rafis Abazov, Ebtisam Al-Kitbi, Ghanim Al-Najjar, David Altmann, Dirk Axtmann, Abdallah Babood, Ingo Badoreck, Jutta Bakonyi, Danny Barlow, Matthias Basedau, Heinrich Bergstresser, Joachim Betz, Florian Bieber, Peter Birle, Ilán Bizberg, Klaus Bodemer, Matthias Böckmann, Dirk van den Boom, Marianne Braig, Markus Brunner, Martin Brusis, Marco Bünthe, Martinho Chachiuá, James Chin, Barbara Christophe, John F. Clark, Julio Cotler, Aurel Croissant, Sally Cummings, Marwa Daoudy, Židas Daskalovski, Johanna Deimel, Mamadou Diarrasouba, Helga Dickow, Renate Dieterich, Dmitri Domanski, Jorge Domínguez, Jörn Dosch, Ahmed Driss, Yuri Dzhiladze, Stefan Ehlert, Gero Erdmann, Mesut Eren, Sigrid Faath, Roxanne Farmanfarmanian, Adelheid Feilcke-Tiemann, Katja Freistein, Henner Fürtig, Friederike Fuhlrott, Manuel Antonio Garretón, Paul Georg Geiss, Nasreen Ghufuran, Richard Giragosian, Iris Glosemeyer, Jörn Grävingholt, Sven Grimm, Bob Sugeng Hadiwinata, Hikmet Hadjy-Zadeh, Stefanie Hanke, Christof Hartmann, Sebastian Heilmann, Linda Helfrich, Geir Helgesen, Steffen Hertog, Almut Hinz, Nicole Hirt, Bert Hoffmann, Rolf Hofmeier, Jan Hofmeyr, Justine Hunter, Majda Idrizbegović, Alisher Ilkhamov, András Inotai, Sorin Ionita, Aboubakr Jamaï, Hakeem Jimo, George Joffé, Tom Jonson, Cédric Jourde, Andrzej Kapiszewski, Raita Karnite, Iris Kempe, Eberhard Kienle, Marianne Kneuer, Christian Koch, Patrick Köllner, Peter Körner, Werner Korte, Karl-Heinz Krämer, Heinz Kramer, Alenka Krasovec, David Kühn, Sabine Kurtenbach, Helmut Kurth, Siniša Kušić, Taras Kuzio, Bernd Kuzmits, Remzi Lani, Fred Lawson, Fabrice Lehoucq, Peter Lehr, Ralf Leiteritz, Gernot Lennert, Hong Hai Lim, Rainer Lindner, Augustin Loada, Howard Loewen, Igor Lukšić, Wolfgang Lutz, Stefan Mair, Darina Malová, Damien Mama, Elham Manea, Zdenka Mansfeldova, Badamdash D. Marhy, Hanspeter Mattes, Claudia Matthes, Andreas Mehler, Wim van Meurs, Subatra K. Mitra, Maximilian Mmuya, Almut Möller,

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