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# The Bertelsmann Transformation Index 2006: On the Way to Democracy and Market-Economy; Strategic Insights, v. 6, issue 12 (December 2005 )



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## The Bertelsmann Transformation Index 2006: On the Way to Democracy and Market-Economy

### *Strategic Insights*, Volume IV, Issue 12 (December 2005)

by [Olaf Hillenbrand](#) and [Peter Thiery](#)

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### Introduction

There are no simple solutions in guiding the processes of transformation or development. A number of different phenomena can be seen in developing countries over the course of recent decades. On one hand there is the repeated, often tragic failure of political management to overcome existing problems and to create better collective or individual opportunities. But, in contrast to these sobering examples, there are a number of states that have been able to overcome the seemingly hopeless situation of a developing country.

Motivated by the “third wave” of transformation—the democratization movement that has produced an impressive number of reform processes since it began in the 1970s and gained strength in the 1980s—the search for solutions about how to modernize states has gained in importance. The message sent by the “tiger” economies or by the Middle and East European countries is that sustainable progress in development and transformation is fundamentally possible. Today, many states are attempting to follow this path, to improve their citizens’ collective and individual prospects. Other states, of course, are still far from this point.

With this background, the *Bertelsmann Transformation Index* (BTI) examines, on a two-year cycle, the political management of change on the way to a market-based democracy. To this end, the index provides two rankings and two trend indicators, which present the results of the comparative analysis and rating of 119 countries in a consolidated and concise form. The Status Index shows the state of development that a country had achieved on the way to democracy and a market economy by the beginning of 2005. The Management Index classifies the quality of transformation management in the countries examined between 2003 and 2005. The trend indicators provide information on the direction of development in terms of democracy and a market economy in each of the countries examined from 2001 to 2005.

The first Bertelsmann Transformation Index (BTI) covered the period 1998-2003. Its findings were published in 2004 (for details see [www.bertelsmann-transformation-index.de](http://www.bertelsmann-transformation-index.de)). The results of the second round of the BTI—the BTI 2006—are reported in this special issue of *Strategic Insights*.

The Bertelsmann Transformation Index is based on three premises:

1. *Development and transformation processes can be measured as progress toward the goals of a democracy rooted in the rule of law and a social market economy.*

Democracy is the principle of political order that provides for the most productive bond between an individual's free will and society. Democracy is fundamentally bound together with the rule of law, as well as the control and limitation of power. A market economy is the key to unlocking productive energy as well as a precondition for promoting the general welfare of society. Coupling these two key components is an elementary condition for states' long-term ability to rise to the challenges of the future.

2. *There is no universally practicable modernization strategy on the path toward democracy and a market economy.*

An empirical comparison shows that successful paths of development can proceed very differently. That has significant consequences for political management. What is strategically necessary in one country may have fatal results in another. History has shown a number of successful transformations in which the infrastructure and the economy were modernized first, and a democratic opening only arrived years later. In other cases, the process would have failed if demands for democratic rights had not been fulfilled in an early phase.

3. *Transformation management is a crucial factor for implementing reform and modernization goals.*

It is almost indisputable that the syndrome of underdevelopment can present states and governments with problems that seem practically unsolvable, that seem to overwhelm their resources and possibilities. The converse also holds true, that successful development and transformation processes are not simply the result of chance or lucky circumstances. Progress on the path toward a market-based democracy is usually the result of a broadly based modernization process. This process requires overcoming considerable political, economic, cultural and social hurdles. In recent years, the concept of good governance has rightly played an increasingly important role in the evaluation of prospects for development. The path toward democracy and a market economy can be undertaken with different emphases, in different time frames and along different routes. In every case, however, it requires effective actors whose capable management steers the processes and keeps developments on track.

Based on these considerations, the *Bertelsmann Transformation Index* consciously places the most emphasis on the management of development and transformation processes on the path toward market-oriented democracy.

## **Assumptions and Methods**

The BTI is the global ranking of quality in democracy, a market economy and political leadership in developing and transformation countries. In essence, the approach taken by the BTI 2006 is the same as that of the BTI 2003. The *Status Index* ranks the development and transformation status of 119 states in terms of their level of democracy and market economy. Most importantly, the BTI's *Management Index* evaluates and compares key actors' political steering abilities according to a uniform standard.

The countries selected for assessment were independent states with populations exceeding three million, which had not yet become fully consolidated democracies with market economies at the beginning of the period of the study. The assessment also included some states which—despite not meeting the population criterion—were still of interest to the BTI on account of their specific transformation features.

The BTI exclude established democracies with market economies in the OECD. These countries are excluded from the Bertelsmann Transformation Index because the BTI measures the development of a country on the way to a market-based democracy. This means that the questions asked in the list of criteria are intended to clarify to what extent democracy and a market economy have been institutionalized and consolidated. This focus makes it reasonable to exclude established democracies and market economies from the ranking, as the BTI criteria would not permit a profound distinction to be made between these countries.

The BTI is directed at the normative goal of a market-based democracy. As a comprehensive benchmark of politics and economic performance, the BTI differs from other indices that examine only economic performance, or the degree of political liberties achieved or specific issues such as corruption and social inequalities. The BTI emphasizes the same values that underlie the European Union's integration process: a representative democracy under the rule of law combined with a socially responsible and sustainable market economy.

The record shows several different paths of transformation can be taken to achieve democracy and a market economy. In many cases, democratic and economic reforms have mutually supported each other. Other examples indicate that there is no prescribed sequence for pursuing market economic and democratic reforms. Clearly, both routes can lead to success. The BTI does not propose a specific optimal sequence of reform steps to be taken. However, the expansion of individual and societal freedom of action in each phase of transformation points a state in the right direction. Furthermore, the guarantees of the rule of law provide a framework in which this expansion is possible.

The focus on the steering and management of development and transformation processes is the BTI's key innovation. The Index reviews and evaluates actors' reform policies. The Bertelsmann Transformation Index provides valuable information highlighting the central factors crucial to success or failure on the way to a market-based democracy. Governments and actors must be determined in their pursuit of goals, use their resources prudently and effectively, and demonstrate the capacity to govern and build consensus while cooperating productively with external supporters. Their astute transformation management is the key if they are to propel their country further along the way toward a market-based democracy.

- The Bertelsmann Transformation Index provides information on decisions leading to success as well as mistakes made. In so doing, the BTI renders these successes and failures transparent and promotes strategic learning.
- The Index results thus facilitate the search for suitable solutions to current and future challenges.

Qualitative assessments by experts provide the basis for the BTI. In designing the BTI study, we have endeavored to optimize the validity and reliability of all ratings on which our index is based. Relying on 58 separate questions, experts on the country in question have, for each of the 119 countries, examined in detail to what extent the total of 19 criteria (including the degree of difficulty and the two trend indicators) have been met. Not only did they award a point score but they also formulated and explained—in reports on the various countries—the analyses on which their numerical ratings were based. Each of the 58 scores for the 119 countries (a total of 6902 separate scores) was reviewed several times. A second assessor, generally from the country concerned, reviewed the country reports independently of the author of the analysis of the country. Following that, two regional experts discussed the individual scores and, in each case, agreed on a rating that took account of the differences between the countries within one region of the world. Finally, the BTI Board of renowned scientists and development practitioners reviewed the regionally adjusted scores, coordinated them within a global comparison and reached a consensus on the final ratings.

## Status Index

The complete results of the study are analyzed from different perspectives: The *Status Index* provides information on the development status achieved by 119 states on their way to democracy and a market economy.

The rating of the *Status Index* is based on a system of points ranging from one (worst score) to ten (best score). When the questions and criteria were designed, it was made sure that roughly the same importance was accorded to each question within a criterion and to each criterion within the dimension of the study concerned. On this basis, it was possible to obtain the aggregate score through a two-step calculation of the respective averages. The ratings for the individual dimensions in the assessment thus consist of the average score for the five political or seven economic criteria, which, in turn, are based on the average scores given in response to the individual questions.

Status Index scores result from the combined scores given for the status of transformation in democracy and a market economy.

### The Status Index—Democracy

Our concept of democracy encompasses more than elections and institutions. Our definition considers the rule of law, representation and the acceptance of political institutions as core elements of a market-based democracy. The five criteria for the status of democracy under the rule of law (evaluated through 18 questions) are based upon a concept of democracy that looks far beyond holding free elections and emphasizes the ability of a democratic system to function. This concept of democracy is reflected in the criteria of rule of law and stability of democratic institutions. It is also manifest in the scores given evaluating the strength of civil society and political participation. The following criteria were measured:

1. *Stateness*: There is clarity about the nation's existence as a state, with adequately established and differentiated power structures
2. *Political Participation*: The population decides who rules, and it has other political freedoms.
3. *The Rule of Law*: State powers check and balance one another and ensure civil rights.
4. *Institutional Stability*: Democratic institutions are capable of performing, and they are adequately accepted.
5. *Political and Social Integration*: Stable patterns of representation exist for mediating between society and the state; there is also a consolidated civic culture.

### Status Index—Market Economy

Similarly, our catalogue of criteria for economic transformation shows a greater degree of complexity than other indices. We consider a country's economic growth and regime together with its social networks, equality of opportunity and sustainability. The seven criteria used to establish the Market Economy Status (evaluated with 14 questions) measure the degree of economic liberalization in a nation's economy and its macroeconomic performance, albeit not in isolation. The social compatibility and sustainability of economic development receive special emphasis.

1. *Level of Socioeconomic Development*: In principle, the country's level of development permits adequate freedom of choice for all citizens.

2. *Organization of the Market and Competition*: There are clear rules of the game for stable competition based on market-based competition.

3. *Stability of Currency and Prices*: There are institutional or political precautions to control inflation sustainable, together with an appropriate exchange-rate policy.

4. *Private Property*: There are adequate conditions to support a functional private sector.

5. *Welfare Regime*: Viable arrangements to provide adjustments compensate for the social effects of the capitalist economic system.

6. *Economic Strength*: The strength of the economy points to solid growth.

7. *Sustainability*: Economic growth is balanced, ecologically compatible and oriented to the future. High priority is attached to education, research and development, and environmental protection.

## Management Index

The key innovation of the Bertelsmann Transformation Index is the Management Index. The Management Index shows the extent to which political decision makers have been consistent and determined in pursuing democracy and a market economy over the last two years.

The meaning of management covered by the index is not democratization, narrowly construed, but rather the expansion of "freedom of choice," and thus there is now pre-selection of a particular path to development. The index also considers the degree of difficulty inherent in the transformation because the scope for achievement in governance is strongly influenced by structural factors. The additional criteria are inductive and reflect the creative tension between the ability to push through changes and orientation toward consensus.

The *Management Index* consists of two components—four criteria (based on 15 questions) enabling differentiated ratings of the political management performance to be made, and the level of difficulty evaluation, which measures the structural constraints on transformation management.

Based on six further questions, the level of difficulty incorporates the fact that the quality of transformation management is influenced by each state's unique structural conditions. The more adverse a state's structural conditions and the more limited its available resources the higher good governance is scored in the Management Index. The *Management Index* is derived by first calculating the average of the management criteria scores and then by multiplying this figure by a factor calculated from the level of difficulty.

*Degree of Difficulty*. An assessment of the difficulty of and structural constraints for transformation that do not result from the current political leadership's actions and can not be swiftly overcome by the current leadership. Among these constraints are extreme poverty, the lack of an educated labor force, severe infrastructural deficiencies, natural disasters or pandemic HIV/AIDS infections, existing ethnic, religious and social conflicts, and traditions of civil society).

1. *Steering Capability*: The political leadership manages reforms effectively and can achieve its policy priorities

2. *Reform Efficiency*: The government makes optimum use of available resources.

3. *Consensus Building*: The political leadership establishes a broad consensus about reform with other actors in society, without sacrificing its reform goals.

4. *International Cooperation*: The country's political actors are willing to cooperate with outside supporters and organizations.

## Politics Matter—Global Patterns and Trends of the Bertelsmann Transformation Index 2006

Democracy and market economies are increasingly present in all regions of the world, and their acceptance has grown. While democratic change and market reforms proceed slower than in the 1990s, the BTI 2006 data demonstrate that achievements have been preserved in most regions and new impulses for political and economic transformation have emerged.

The BTI 2006 illustrates the correlation between progress in development and sound political management. Many positive examples such as Chile, Madagascar, Mauritius, Botswana and South Korea prove that the political will for reform and skillful political management are a condition sine qua non for sustainable political and economic development. Those countries in which political leadership has proven itself reliable have made progress in the transformation toward a socially responsible market economy and democracy under the rule of law. Successful reformers proved capable of good management by:

- Formulating long-term strategies;
- Establishing a consensus by integrating civil society and opposition groups;
- Making efficient use of available resources; and
- Cooperating with regional partners and international actors.

**Table 1: Top Ten of the Bertelsmann Transformation Index (BTI) 2006**

Status-Index:	Management-Index:
<ul style="list-style-type: none"><li>• Slovenia</li><li>• Estonia</li><li>• Czech Republic</li><li>• Taiwan</li><li>• Hungary</li><li>• Slovakia</li><li>• Lithuania</li><li>• South Korea</li><li>• Poland</li><li>• Chile</li></ul>	<ul style="list-style-type: none"><li>• Mauritius</li><li>• Chile</li><li>• Botswana</li><li>• Slovenia</li><li>• Taiwan</li><li>• Slovakia</li><li>• Estonia</li><li>• South Korea</li><li>• Lithuania</li><li>• Czech Republic</li></ul>

Negative trends of democratic and economic transformation also support these findings: continually low quality management in the Andean region have led these countries into a situation where democracy and market economy are threatened. In many more countries, much remains yet to be done. Roughly a fifth of the countries studied have not yet begun a process of transformation, still others have retrogressed, while in a third group promising beginnings are now endangered.

In a nutshell, three core conclusions can be drawn from the findings of the BTI 2006:

- Even with increasing market integration and globally converging expectations with regard to standard-of-living, democracy and market economy stand in a mutually productive relationship to one another.
- Democracy and a market economy can also be achieved from a disadvantageous starting point. Political management is decisive in this regard.
- Democratic participation helps to overcome the problems associated with transformation and in particular with economic liberalization.

**Figure 1: Global Ranking of the Bertelsmann Transformation Index 2006**



State Index		Ranking 2004	Ranking 2005	Ranking 2006	Ranking 2007	Management Index	
9.98	Turkmenistan	1	1	1	1	1.00	1.00
9.98	Maldives	2	2	2	2	1.00	1.00
9.98	United Kingdom	3	3	3	3	1.00	1.00
9.98	France	4	4	4	4	1.00	1.00
9.98	Spain	5	5	5	5	1.00	1.00
9.98	Italy	6	6	6	6	1.00	1.00
9.98	Portugal	7	7	7	7	1.00	1.00
9.98	Sweden	8	8	8	8	1.00	1.00
9.98	Denmark	9	9	9	9	1.00	1.00
9.98	Netherlands	10	10	10	10	1.00	1.00
9.98	Belgium	11	11	11	11	1.00	1.00
9.98	Austria	12	12	12	12	1.00	1.00
9.98	Switzerland	13	13	13	13	1.00	1.00
9.98	Germany	14	14	14	14	1.00	1.00
9.98	Finland	15	15	15	15	1.00	1.00
9.98	South Korea	16	16	16	16	1.00	1.00
9.98	Japan	17	17	17	17	1.00	1.00
9.98	China	18	18	18	18	1.00	1.00
9.98	South Africa	19	19	19	19	1.00	1.00
9.98	India	20	20	20	20	1.00	1.00
9.98	Chile	21	21	21	21	1.00	1.00
9.98	Colombia	22	22	22	22	1.00	1.00
9.98	Costa Rica	23	23	23	23	1.00	1.00
9.98	Venezuela	24	24	24	24	1.00	1.00
9.98	Peru	25	25	25	25	1.00	1.00
9.98	Poland	26	26	26	26	1.00	1.00
9.98	Czechia	27	27	27	27	1.00	1.00
9.98	Hungary	28	28	28	28	1.00	1.00
9.98	Slovenia	29	29	29	29	1.00	1.00
9.98	Latvia	30	30	30	30	1.00	1.00
9.98	Lithuania	31	31	31	31	1.00	1.00
9.98	Malta	32	32	32	32	1.00	1.00
9.98	Armenia	33	33	33	33	1.00	1.00
9.98	Georgia	34	34	34	34	1.00	1.00
9.98	Ukraine	35	35	35	35	1.00	1.00
9.98	Belarus	36	36	36	36	1.00	1.00
9.98	Yemen	37	37	37	37	1.00	1.00
9.98	Algeria	38	38	38	38	1.00	1.00
9.98	Libya	39	39	39	39	1.00	1.00
9.98	Egypt	40	40	40	40	1.00	1.00
9.98	Saudi Arabia	41	41	41	41	1.00	1.00
9.98	Qatar	42	42	42	42	1.00	1.00
9.98	Bahrain	43	43	43	43	1.00	1.00
9.98	Oman	44	44	44	44	1.00	1.00
9.98	Iran	45	45	45	45	1.00	1.00
9.98	North Korea	46	46	46	46	1.00	1.00
9.98	South Korea	47	47	47	47	1.00	1.00
9.98	China	48	48	48	48	1.00	1.00
9.98	India	49	49	49	49	1.00	1.00
9.98	Japan	50	50	50	50	1.00	1.00
9.98	United States	51	51	51	51	1.00	1.00
9.98	France	52	52	52	52	1.00	1.00
9.98	Germany	53	53	53	53	1.00	1.00
9.98	United Kingdom	54	54	54	54	1.00	1.00
9.98	Spain	55	55	55	55	1.00	1.00
9.98	Italy	56	56	56	56	1.00	1.00
9.98	Portugal	57	57	57	57	1.00	1.00
9.98	Sweden	58	58	58	58	1.00	1.00
9.98	Denmark	59	59	59	59	1.00	1.00
9.98	Netherlands	60	60	60	60	1.00	1.00
9.98	Belgium	61	61	61	61	1.00	1.00
9.98	Austria	62	62	62	62	1.00	1.00
9.98	Switzerland	63	63	63	63	1.00	1.00
9.98	Germany	64	64	64	64	1.00	1.00
9.98	Finland	65	65	65	65	1.00	1.00
9.98	South Korea	66	66	66	66	1.00	1.00
9.98	Japan	67	67	67	67	1.00	1.00
9.98	China	68	68	68	68	1.00	1.00
9.98	India	69	69	69	69	1.00	1.00
9.98	South Africa	70	70	70	70	1.00	1.00
9.98	Chile	71	71	71	71	1.00	1.00
9.98	Venezuela	72	72	72	72	1.00	1.00
9.98	Peru	73	73	73	73	1.00	1.00
9.98	Poland	74	74	74	74	1.00	1.00
9.98	Czechia	75	75	75	75	1.00	1.00
9.98	Hungary	76	76	76	76	1.00	1.00
9.98	Slovenia	77	77	77	77	1.00	1.00
9.98	Latvia	78	78	78	78	1.00	1.00
9.98	Lithuania	79	79	79	79	1.00	1.00
9.98	Malta	80	80	80	80	1.00	1.00
9.98	Armenia	81	81	81	81	1.00	1.00
9.98	Georgia	82	82	82	82	1.00	1.00
9.98	Ukraine	83	83	83	83	1.00	1.00
9.98	Belarus	84	84	84	84	1.00	1.00
9.98	Yemen	85	85	85	85	1.00	1.00
9.98	Algeria	86	86	86	86	1.00	1.00
9.98	Libya	87	87	87	87	1.00	1.00
9.98	Egypt	88	88	88	88	1.00	1.00
9.98	Saudi Arabia	89	89	89	89	1.00	1.00
9.98	Qatar	90	90	90	90	1.00	1.00
9.98	Bahrain	91	91	91	91	1.00	1.00
9.98	Oman	92	92	92	92	1.00	1.00
9.98	Iran	93	93	93	93	1.00	1.00
9.98	North Korea	94	94	94	94	1.00	1.00
9.98	South Korea	95	95	95	95	1.00	1.00
9.98	China	96	96	96	96	1.00	1.00
9.98	India	97	97	97	97	1.00	1.00
9.98	Japan	98	98	98	98	1.00	1.00
9.98	United States	99	99	99	99	1.00	1.00
9.98	France	100	100	100	100	1.00	1.00

**Legend**

**State Index**  
The State Index is calculated based on the scores for the three pillars of the Bertelsmann Transformation Index: Democracy, Rule of Law, and Economic Governance.

**Democracy**  
The Democracy Index is calculated based on the scores for the three pillars of the Democracy Index: Political Rights and Civil Liberties, Suffrage, and Government Process.

**Rule of Law**  
The Rule of Law Index is calculated based on the scores for the three pillars of the Rule of Law Index: Constraints on Government Powers, Absence of Corruption, and Absence of Clientelism.

**Economic Governance**  
The Economic Governance Index is calculated based on the scores for the three pillars of the Economic Governance Index: Government Effectiveness, Regulatory Quality, and Credit to the Private Sector.

**Ranking**  
The ranking is based on the State Index score, with 1 being the highest and 100 being the lowest.

**Level of Difficulty**  
The level of difficulty is based on the State Index score, with 1 being the highest and 100 being the lowest.

**BTI 2006**  
The Bertelsmann Transformation Index 2006 is a composite index that measures the quality of institutions in 100 countries. It is based on the scores for the three pillars of the Bertelsmann Transformation Index: Democracy, Rule of Law, and Economic Governance.

Country	BTI 2006
1	Algeria
2	Armenia
3	Austria
4	Azerbaijan
5	Bahrain
6	Bangladesh
7	Belarus
8	Belgium
9	Belize
10	Bhutan
11	Bolivia
12	Bosnia and Herzegovina
13	Botswana
14	Brazil
15	Bulgaria
16	Burkina Faso
17	Burundi
18	Cambodia
19	Cameroon
20	Canada
21	Chad
22	Chile
23	China
24	Colombia
25	Costa Rica
26	Cote d'Ivoire
27	Cuba
28	Cyprus
29	Czechia
30	Dominican Republic
31	Dominica
32	Egypt
33	Ecuador
34	Egypt
35	El Salvador
36	France
37	Ghana
38	Guatemala
39	Hong Kong
40	Hong Kong
41	Hong Kong
42	Hong Kong
43	Hong Kong
44	Hong Kong
45	Hong Kong
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100	Hong Kong

## Transformation towards Democracy

Recent years have seen a sustained trend toward democratization. At the end of the review period 2003-2005, seventy-one of the 119 countries in the BTI are democracies (60%). Afghanistan was the only country which transitioned from an autocratic regime to democracy during the course of the study. Encouraging is the fact that seventeen out of seventy-one democracies were able to achieve higher levels of democratization in the past three years. There was a noticeable strengthening of both political and civil rights—above all in Croatia, Madagascar, Sierra Leone, the Slovak Republic, Turkey and Ukraine. So far, ten democracies have succeeded at democratic consolidation. And not only do all these enjoy fundamental democratic rights, institutions and procedures, they also have attained a high degree of political stability.

**Table 2: Trends of Democratization (2003-2005)**

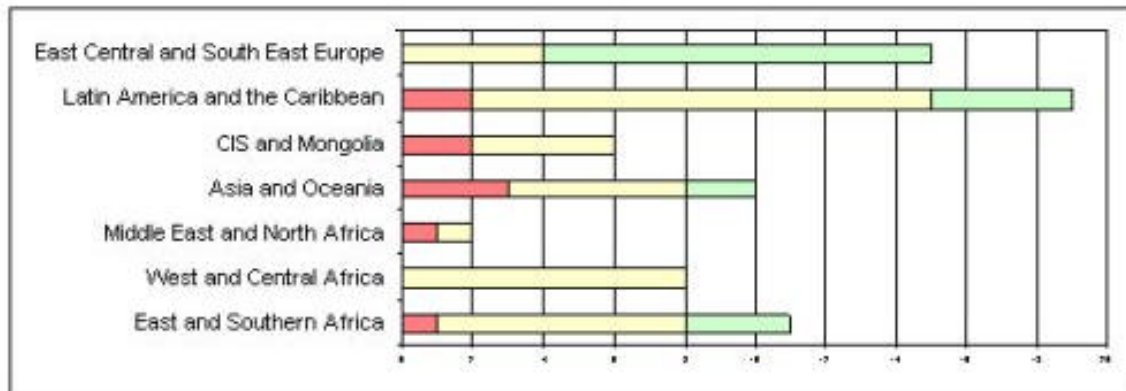
<b>Strong improvement of level of democracy</b>	<b>Erosion of level of democracy</b>	<b>Consolidated democracies (in BTI sample)</b>	<b>Regression into autocracy</b>
Croatia	Bolivia	Costa Rica	Ivory Coast
Georgia	Ecuador	Czech Republic	Cameroon
Sierra Leone	Moldova	Estonia	Nepal
Slovak Republic	Peru	Hungary	
Turkey	Thailand	Lithuania	
Ukraine		Poland	
		Slovakia	
		Slovenia	
		Taiwan	
		Uruguay	

Despite these improvements, the picture is clouded somewhat by a decline in the level of democratization in five countries—most dramatically in Bolivia, Ecuador, Moldova, Peru and Thailand—and the autocratic regression of Nepal, Ivory Coast and Cameroon. According to the assessment of the BTI, twenty out of seventy-one (71) democracies function largely without serious limitations. Deficiencies are clearly evident in forty-two countries, while in an additional nine deficiencies are strongly pronounced. A glance at the world's regions reveals that only in Central Eastern and Southern Europe most democracies are working properly, whereas in the Middle East/North Africa, in the Russian Federation/Mongolia, as well as in West and Central Africa, there are no such “functioning” democracies. In all of Africa there are only three—Botswana, Mauritius and South Africa, two in Asia—South Korea and Taiwan, whereas in Latin American there are four—Costa Rica, Uruguay, Jamaica and Chile.

Democratic freedoms have not become a reality in these countries to a sufficient extent. In most cases this is not a temporary variation in quality, but instead a persistent deformation of the

political system. Over the long run, these “defective democracies” present grave liabilities to both good governance and economic development. They are a detriment not only to citizens’ civil rights but also to the very idea of democracy itself. Positive, however, is the fact that in defective democracies, there is a variety of means for domestic as well as external actors to effect a deepening of political transformation—means that do not exist in authoritarian states.

**Figure 2: The quality of democracies in regional comparison (number of countries)**



*Red = strongly defective democracy (democracy index score < 6); yellow = defective democracy (democracy index score from 6 to 8); green = mostly democratic (democracy index score = 8).*

The world’s forty-eight authoritarian states (40% of all BTI countries) are located almost exclusively in a broad band running from Africa across the Middle East/North Africa and Central Asia into East Asia. Belarus, Cuba and Haiti are the three remaining autocracies in Europe and the Western Hemisphere.

The world’s autocracies are not homogeneous in character, but are instead spread across a broad spectrum that joins together moderate autocracies, in which there exist elements of political participation and the rule of law (Singapore, Malaysia, Morocco); austere modernizing dictatorships, as in China and Vietnam; neo-patrimonial autocracies of various kinds in Central Asia, Africa and in the Middle East; as well as despotic regimes like that in Turkmenistan and tyrannical orders like in North Korea. Because of the limitations they impose on basic freedoms, countries in states of anarchy, as in Somalia, Ivory Coast as well as post-war Iraq, should also be considered autocratic.

During the period covered by this study, the stamina of the world’s autocracies proved to be considerable. Twenty countries have shown clear signs of retrogression. The worst cases were Zimbabwe, Nepal, Haiti, Eritrea and the Democratic Republic of Congo and, to a lesser degree, Rwanda, CAR, Liberia and Uzbekistan, too. In the remaining authoritarian states—mainly in Islamic and East Asian countries—political freedoms showed no signs of improvement.

Autocracies demonstrate not only diverging potentials for change. Several countries have converted this potential into transformation impulses—though initially only in the economic sector. This is due to the fact that elites have come to the fore who are willing to pursue change—at least temporarily and with differing degrees of determination—and whose political calculations are not solely determined by their own self-interest or desire to hold onto power. They are instead motivated by progressive ideas guided by rudimentary notions about the common good. In Asia, in addition to Singapore and Malaysia, these include the modernization dictatorships in China and Vietnam; in North Africa, the monarchies in Morocco and Tunisia; and in the Middle East, above all Bahrain.

In contrast, however, are the large majority of regimes that have initiated neither political nor genuinely free-market modernization. African autocracies demonstrate more of a “negative reliability”. The barriers to modernization in the Middle East/North Africa are of a different character, where oil revenues insure the stabilization of oligarchies. Little or no movement toward modernization can be discerned in the autocracies of the Russian Federation, in the repressive regimes in Eastern or Southeast Asia (North Korea, Laos, Myanmar), or in Cuba. In those dictatorships with a strong personality cult—such as in Cuba—it is, however, possible that this situation could change from one day to the next.

## Transformation towards Market Economy

During the review period of the BTI 2006, progress could be observed in the transformation to market economy, with the greatest change taking place within the regional neighborhood of the European Union. From a systematic standpoint, the bulk of progress lay in the area of economic rules and regulations. The development of such stable and clearly defined economic rules is a precondition for the unfolding of development potentialities and to avoid the misallocation of resources. From this perspective, it is clear that while China may currently present an attractive location for economic investment, owing both to its size and to the dynamic character of its development, the institutional fundamentals of its economy still do not possess a stable footing. On the other hand, in many countries the reforms leading to a sound institutional framework, often supported by the IMF, have not yet lead to stronger economic dynamics, as it was to be seen in Bolivia.

Overall, the weaknesses of economic transformation in most countries are porous welfare regimes, insufficient social safety nets, the lack of solid institutions for basic and advanced education, and the fact, that often environmental concerns are not taken into account in economic development policies. Twelve democracies—all eight EU accession states, Croatia, South Korea, Taiwan and Chile—along with Singapore have institutionally stable and functioning market economies. Except for Singapore, all are among the top 20 on the democracy scale, which indicates that a sound market economy and advanced democracy go hand in hand.

**Table 3: Status of Transformation towards Market Economy**

<b>Strong improvement of level of market economy</b>	<b>Strong erosion of level of market economy</b>	<b>Developed market economies (in BTI sample)</b>
China	Zimbabwe	Slovenia
Croatia	Eritrea	Singapore
India	Ivory Coast	Estonia
Latvia	Uzbekistan	South Korea
Lithuania		Taiwan
Madagascar		Czech Republic
Mozambique		Slovakia

Russia		Hungary
Serbia-Montenegro		Lithuania
Slovakia		Chile
Slovenia		Poland
Tadjikistan		Croatia
Thailand		Latvia
Uganda		
Ukraine		
United Arab Emirates		

Altogether, twenty-nine democracies were able to improve the status of their market economies, even though progress turned out to be rather minimal in most cases. Greatest progress was noted in South Korea and in the EU accession states, as well as in several countries bordering the EU, such as Turkey. Roughly one quarter of the forty-eight authoritarian countries successfully moved toward a (more) productive market system, above all China, Vietnam and Bahrain. In the other half of the authoritarian world, by contrast, no appreciable change occurred; transformation to a functioning market economy stagnated at a generally low to very low level.

Further setbacks occurred in Eritrea, Haiti and Zimbabwe, where state disintegration or mismanagement further diminished already dim future prospects. With respect to authoritarian states, one must also bear in mind that these trends occur at differing levels of economic development. While Singapore possesses the classic social-economic pre-conditions for the development of a democracy, the vast majority of the other countries—in particular those in Africa and Asia—are still a long way from similarly favorable structural conditions.

Achievements in market development have not yet been secured in the majority of both democracies and autocracies. This often results from deficiencies within the countries themselves, such as inadequate legal safeguards or infrastructures. An additional risk stems from the cautious reaction to these developments on the part of industrialized countries and the financial institutions they control. The Achilles heel of market transformation lies primarily in low levels of development and inadequate social security. These elements of functioning market economies can be influenced only to a limited degree by proper management on part of the respective national elites, and instead require more deeply going and vigorous international involvement. It is these elements that have a strong bearing on the opportunities for individual development and contribute to the acceptance of both the economic and the political order. The BTI should—in particular through its detailed results—promote a re-thinking of the policies of donor agencies and other external actors.

## Development through Good Management

In most instances, successful change came about as a result of management performance. In particular among a small group of ten countries, political elites were in a position to pursue

coherent reform measures for optimal use of both endogenous and exogenous development potentials. EU accession states like Estonia, Lithuania, Slovakia and Slovenia have profited in this way from the special incentives associated with potential EU membership. South Korea and Taiwan, on the other hand, went through an uninterrupted process of transformation. This increased the complexity of the tasks associated with transformation, but simplified continued pursuit of the course of development already initiated.

Due to the high quality of political management, ten countries lead the BTI Management Index 2006:

- Mauritius
- Chile
- Botswana
- Slovenia
- Taiwan
- Slovakia
- Estonia
- South Korea
- Lithuania
- Czech Republic

As different as the problems these countries face are, in all these cases their governments have understood how to work toward democracy and a market-based economy and have mastered the difficult balance between limited resources and the massive restrictions on their actions. This is especially noteworthy since it concerns small and, in part, poor countries whose political economies are particularly subject to the ups and downs of the global market.

The role played by management becomes more apparent when one examines it in light of the great failures of recent years. Venezuela, Ecuador and Nepal serve as examples of those countries in which political elites were unable to derive any benefit from existing preconditions and instead caused dramatic setbacks to the transformation process. Consequently, these countries will have difficulty returning to a steady course toward transformation.

A separate group consists of those countries in which nearly exclusive priority has been given to market transformation. Singapore, China, Malaysia and Vietnam started from very different stages of development, but demonstrated progress in the market conversion of their economies: management in these countries was, therefore, aimed at one-sided modernization, but it demonstrated that this can be controlled relatively successfully.

The bulk of the remaining countries operate within this area characterized by success, failure, and one-sided modernization. They combine greater or lesser degrees of management success with various degrees of deficiency. These range from nearly successful management (Croatia, Brazil) through notable partial successes (Mexico, India, Benin) to overwhelmed or irresolute management (Paraguay, Philippines, Lebanon).

Finally, there is a group of countries in which generally bleak conditions involving civil war or state disintegration do not admit of transformation (Somalia, Democratic Republic of Congo), along with the hard core of states that reject transformation outright, as is the case in Cuba, North Korea, Zimbabwe and Turkmenistan. Nonetheless, this country-group comprises almost a fifth of all the countries surveyed.

The top ten countries understood how to combine individual management efforts so as to produce synergistic effects in shaping change. The management profile of these countries contains—at this generally high level—characteristic strengths, including high commitment



(reliable pursuit of goals), successful consensus building, and a high degree of effectiveness in international cooperation. Four factors promoted the development of these strengths:

- The respective governments possessed a strong willingness to seek transformation, which they understood to translate into great reliability in the pursuit of goals. Despite repeated changes in government, Estonia, for example, enjoyed broad agreement among both the political leadership and the population at large on the need to propel the country out of the soviet-era and into modern Europe. The other East European countries followed this example, the last of these being Slovakia during the post-Meciar era. Botswana, Mauritius and Chile all profited from the long-term continuity and stability of their respective governments.
- The governments were able to adapt their strategies to the challenges posed by the respective transformation situation. They developed different management strengths, which also served to compensate for existing deficiencies. As different as these eleven countries were in terms of conditions prevailing at the start of the transformation process, their record of transformation and the results achieved demonstrate that each government understood how to shape appropriate means of action.
- The governments showed flexibility and a willingness to learn. This learning involved the correction of failed policies, a process that entailed more than simply changing individual political measures and concerned itself instead with the entire matrix of reform policies.
- Also of central importance was the promulgation of a longer time horizon that allowed both elites and society in general to practice greater caution with regard to short-term political goals. In Eastern European countries it was the prospect of EU membership that essentially set this time horizon. Chilean governments were able to successfully convey to the public a pragmatic transformation project directed at the mid-term. Botswana oriented its transformation around realistic national development plans, each with a set of goals and agendas. These countries are thus in a position to continue along a previously established path toward transformation.

## Concluding Remarks

Despite progress, most countries still face a long road toward transformation and in the process must overcome barriers that many of them share. Over the middle-term, the greatest challenges lie in three very basic areas: securing the state monopoly on the use of violence; establishment or consolidation of a functioning administrative apparatus; and a strengthening of the rule of law. The solution of these problems is a pre-requisite for the success of other political and economic reforms. The above-average management efforts by governments in less developed countries open the prospect that they eventually may be able to catch up in the transformation process, once they have secured what they have already attained.

On the other hand, experience with continuously below-average government management performance offers little cause for optimism. On the contrary, much in these countries points over the short- and mid-term toward a further erosion—or at least stagnation—of democratic and socio-economic standards, and not substantial democratic and economic improvements. This increases the danger that these countries will become focal points of regional or international crisis. Bad governance will remain a serious problem in the near future.

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