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# Comparing Political Governance: Southeastern Europe in a Global Perspective

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# Comparing Political Governance: Southeastern Europe in a Global Perspective

## Summary

The literature on the quality of democracy, market economy and political management in the new democracies of Southeastern Europe has raised three main doubts and concerns. First, democracy in Southeast Europe has turned into power struggles among elites largely isolated from a citizenry that is increasingly disaffected with democracy and susceptible to populist and radical political forces. Second, the institutions of market economy are undermined by the rise of the informal economy and widening social disparities. Third, lacking safe electoral majorities and a sufficiently realistic prospect of EU membership, liberal and Western-oriented political actors have failed to sustain democratic and economic reforms.

This paper uses the findings of the Bertelsmann Transformation Index, a global ranking of democracy, market economy and political management, to discuss these hypotheses. We compare the performance profiles for Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and Serbia and Montenegro, analyzing the trajectories of these countries over time and in comparison with other Southeast European, East Central European and Latin American democracies.

The paper shows that there is an evident public disappointment with the performance of democratic institutions, coupled with weak intermediary organizations and significant populist or nationalist voices, but this belongs to an interplay of mutually reinforcing defects that can also be observed in Latin American countries. Western Balkan countries are characterized by significant informal sectors, increasing social inequalities and fragile or insufficient electoral majorities for liberal reformers, but market reforms have so far been continued and economic performance has improved.

The management performance of Albania, Bosnia, Macedonia and Serbia for all four management criteria is more than two points weaker than the average for East Central Europe including Bulgaria, Croatia and Romania. This suggests that the four problem countries from the Western Balkans not only lag behind in the development of democracy and market economy, but also lack sufficient governance capacities to catch up with East Central Europe. Developing these capacities appears to be the key to sustainable conflict settlements and to EU membership strategies for this part of Europe.

## 1. Introduction

The introductory article of this special issue has raised doubts and concerns about the quality of democracy, market economy and political management in new democracies of Southeastern Europe. Some observers have identified a crisis of democracy in Southeastern Europe, consisting in the “growing gap between the public and political elite and the growing mistrust in democratic institutions”.<sup>1</sup> Self-contained, isolated power games within the political elite and an increasing indifference of the public seem to reinforce each other. The widespread disaffection with the performance of democracy may lead people to support populist and radical political forces.

Although governments have secured macroeconomic stability, externally supported by the IMF, there are doubts as to whether the institutions of modern market economy have fully taken root.<sup>2</sup> The distorted economic structures that developed during the years of war and isolation were associated with a highly unequal distribution of social chances and resources. Economic reforms have increased unemployment and poverty while some enterprise insiders and business groups have managed to retain their rent incomes from cartelized markets or to convert their political privileges into economic capital. These processes entail a widening of social disparities and are perceived as highly unfair by many people. In effect, citizens may start questioning the legitimacy of the institutional framework that has enabled them. Due to the lack of alternative employment options, many people are forced to earn their living through subsistence production or in the informal economy. “The shadow economy can be seen as an indicator of a serious deficit of legitimacy of the present social order and the existing rules of official economic activities.”<sup>3</sup>

Those political actors that were most clearly committed to economic reform and liberal democracy have traditionally had a weak societal basis in Southeastern Europe. This agency problem provides an important explanation for the protracted pathways of democratization in the region.<sup>4</sup> Liberal reformers were not able to win clear electoral majorities and if governments with a determined agenda of liberal market reforms succeeded in replacing postsocialist governments dominated by the old elites, they were regularly voted out of office, as may be illustrated by the Kostov government in Bulgaria, the Constantinescu-governments in Romania or the Djindjic-government in Serbia. One reason for these failures is the public disenchantment with the reality of democracy and market economy described above. Another reason seems to be that liberal reformers failed to convince large parts of their citizenry that the pace and depth of domestic reform would influence the prospect of membership in the European Union, widely perceived as the key to future prosperity.<sup>5</sup>

Weak societal basis  
of reformers

Drawing on these observations, we formulate three hypotheses:

(1) Democracy in Southeast Europe has turned into power struggles among elites largely isolated from a citizenry that is increasingly disaffected with democracy and susceptible to populist and radical political forces.

(2) The institutions of market economy – free prices and trade, open and competitive markets, private enterprises and property rights – are undermined by the rise of the informal economy and widening social disparities.

(3) Lacking safe electoral majorities and a sufficiently realistic prospect of EU membership, liberal and Western-oriented political actors have failed to sustain democratic and economic reforms.

Intraregional comparison To what extent can these hypotheses be corroborated by the findings of the Bertelsmann Transformation Index (BTI)? In this article, we proceed by interpreting and comparing the BTI ratings in several dimensions. First, we perform an intraregional comparison by looking at the performance profiles for Albania, Croatia, Bosnia and Herzegovina (in the following: Bosnia), the Former Yugoslav Republic of Macedonia (in the following: Macedonia) and Serbia and Montenegro (in the following: Serbia). These countries have been studied in detail here and represent a selection of Southeast European countries that have experienced a protracted transition to democracy, suffered from the Yugoslav wars and aspire for EU membership.

Longitudinal comparison A second dimension of comparison is over time. We compare how the Western Balkan countries have changed since 2003, based upon the country reports and ratings for the previous BTI.<sup>6</sup> This assessment used essentially the same concepts, criteria and methods and can therefore be compared with the new BTI scores. In a third comparative perspective, the Western Balkan countries are compared with other Southeast European and East Central European countries. We ask whether and how the Western Balkan countries differ from Bulgaria, Romania and the new EU member states.

Interregional comparison Finally, we seek to locate the Western Balkans in comparison with other regions of the world. We focus on the Latin American democracies, because they have, in the course of the last two decades, established democracies and reduced the share of the state in their economies. These comparative angles allow us to assess whether and to what extent the three hypotheses apply to all five Western Balkan countries and distinguish this group of countries from countries in other world regions.

Before we start, two qualifications have to be made. First, the BTI ratings for Serbia should be interpreted carefully because the ratings refer only to Serbia. One reason for this choice is that the State Union of Serbia and Montenegro formed in 2003 possesses only weak powers at the Union level. Another reason is that the population of Serbia is almost 14 times larger than the population of Montenegro, and the Republic of Serbia in many respects constitutes the dominant part of the State Union. To avoid the inclusion of ratings for Montenegro or the State Union into a rather meaningless aggregate rating, the analysis is confined to Serbia. As Kosovo, until 1999 an autonomous province of Serbia, is governed by a UN interim administration, an assessment of democracy, market economy and governance in Kosovo would also blur aggregate ratings and is thus not included.

Second, the BTI ratings for Bosnia refer to the state level; democracy, market economy and management are not separately assessed for the two entities. The role of the High Representative of the international community is not included in the rating. Rather, it is interpreted as a given structural condition for the management of Bosnia's domestic political leadership.

## 2. Performance profiles of Western Balkan countries

### 2.1. Constitutional democracy

As explained in the introductory article, the BTI uses a broad concept of constitutional democracy and measures stateness as well as the attitudinal, behavioral and representative consolidation of democracy. If these criteria are applied to assess the state of development of democracy in the five countries studied here, only Croatia can be considered a functioning democracy in the process of consolidation. The other four countries are more adequately classified as defective democracies, ranging more than 1.5 points behind Croatia (table 1). Their defects are most pronounced with respect to STATENESS, RULE OF LAW, INSTITUTIONAL STABILITY and POLITICAL INTEGRATION, while political participation rights are, by and large, ensured and democratically elected representatives have the effective power to govern (table 2).

The STATENESS ratings reflect the uncertainty over the future statehood of Bosnia, the contestation of Macedonia's state monopoly on the use of force by ethnic Albanian fighters, the attacks against ethnic minorities in Serbia's Vojvodina province and an Albanian state lacking the capacity to ensure basic administrative services and the monopoly on the use of force throughout the country. All four defective democracies are marred by fundamental conflicts between individual constitutional organs or major political actors that are manifested in the ratings for rule of law and institutional stability. These conflicts include the disputes between the two republics of Serbia and Montenegro, the entities of Bosnia, the democratic and socialist parties in Albania, and the fundamentalist opposition role of the VMRO-DPMNE in Macedonia.

Defective Democracies

Among all four defective democracies, Bosnia is rated most problematic since its future as an integral state is still at risk and it lacks strong intermediary organizations that would be able to bridge the ethnic divide and form societal building blocks of a territorially based democracy. However, the improvements noted in the country report have also led to a significant upgrading of the ratings compared to the previous BTI that captured the state of democratic development in early 2003. Croatia has joined the leading group of (nearly) consolidated democracies mainly due to its high scores for STATENESS, POLITICAL PARTICIPATION and the STABILITY OF THE DEMOCRATIC INSTITUTIONS. These ratings have improved significantly since 2003 and reflect, among other things, the fact that the country's democratic institutions continue to function largely without major constitutional conflicts.

**Table 1: Status Index scores for Southeast European countries**

	State of democracy	State of market economy	Status Index	Rank
Slovenia	9.55	9.36	9.45	1
Hungary	9.40	8.93	9.16	5
Croatia	9.10	8.32	8.71	11
Bulgaria	8.45	7.50	7.98	16
Romania	8.20	7.57	7.89	19
Macedonia	7.55	6.61	7.08	29
Serbia and Montenegro	7.40	6.50	6.95	33
Turkey	7.05	6.79	6.92	34
Albania	7.25	5.96	6.61	37
Bosnia-Herzegovina	6.80	6.43	6.61	37
Moldova	5.40	4.71	5.06	75

Source: Selected BTI ratings.

Table 2: State of democracy in Southeast Europe

	Stateness	Political participation	Rule of law	Institutional stability	Political and social integration
Slovenia	9.8	10.0	9.5	9.5	9.0
Hungary	10.0	10.0	9.0	9.5	8.5
Croatia	9.5	10.0	8.3	9.5	8.3
Bulgaria	9.3	9.3	7.8	9.0	7.0
Romania	9.3	9.0	7.3	8.5	7.0
Macedonia	8.0	9.0	7.0	8.0	5.8
Serbia and Montenegro	8.8	8.5	6.8	7.0	6.0
Turkey	7.8	7.0	6.3	8.0	6.3
Albania	8.0	8.0	5.5	7.5	7.3
Bosnia-Herzegovina	7.0	8.5	6.5	7.0	5.0
Moldova	6.5	6.8	4.8	4.5	4.5

Source: Selected BTI ratings. Best score = 10, worst score = 1. Column headings represent the criteria outlined in the introduction to this special issue.

Public mistrust

The country studies of this special issue and the disaggregated BTI ratings partially confirm our first hypothesis about self-referential elite power struggles and public disaffection threatening democracy. The reports on Bosnia, Macedonia and Serbia cite public opinion surveys that report a high degree of mistrust towards parties and partisan political institutions while indicating a constantly high level of diffuse support for democracy or democratic principles. Albania, Bosnia, Macedonia and Serbia are rated as countries where corrupt officeholders can avoid sanctions by slipping through political, legal or procedural loopholes.

Intermediary organizations

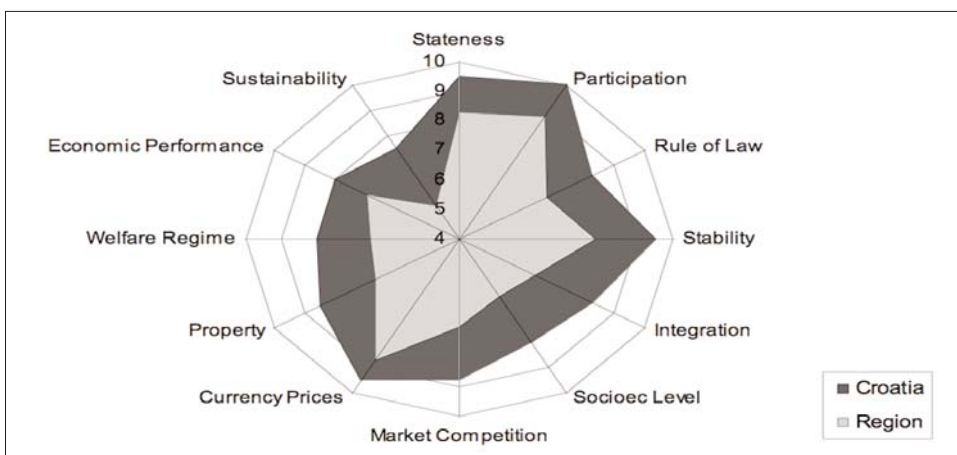
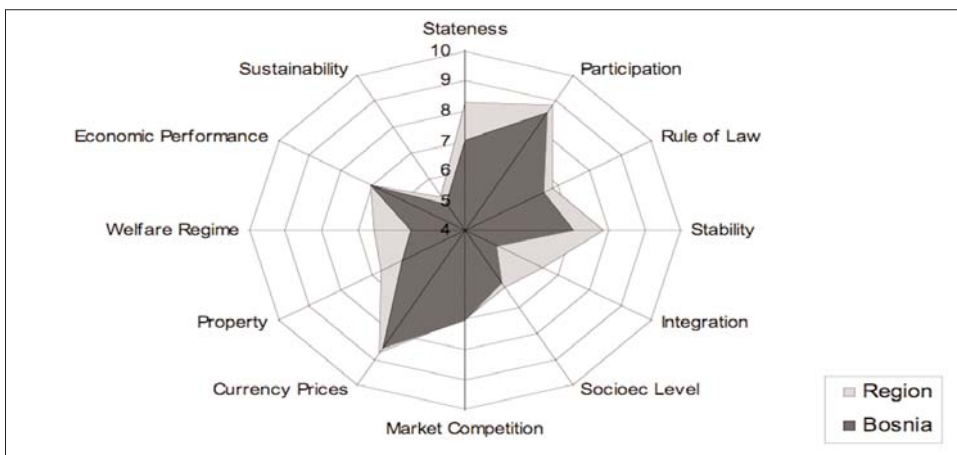
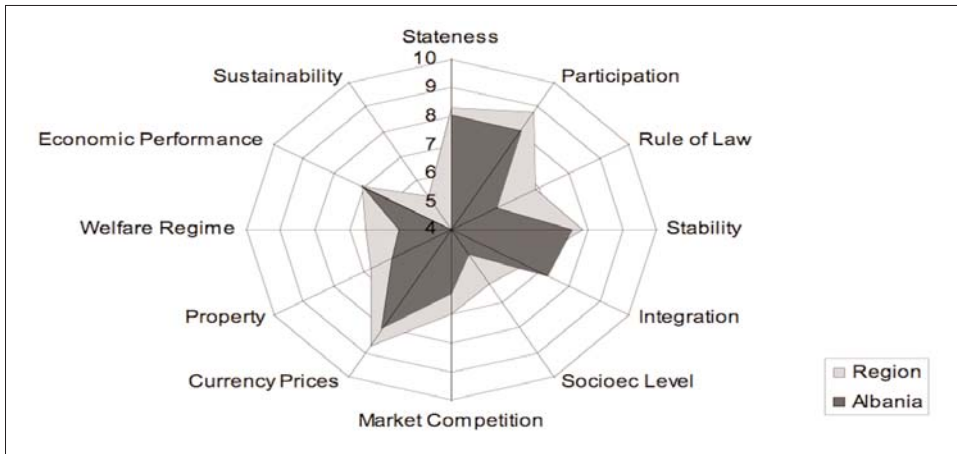
The country assessments also note the weakness of parties and interest associations as institutions to aggregate and articulate citizens' interests. In the three countries with larger non-majoritarian ethnic groups (Bosnia, Macedonia and Serbia), electoral behavior is shaped by ethnic affiliation. Nationalist, populist and radical parties constitute major political actors in Bosnia, Macedonia and Serbia, but there is also a right-wing extremist party in Croatia (HSP), representing approximately five per cent of the electorate. It is, however, difficult to assess whether we observe a clear trend towards a strengthening of these actors as the boundaries between mainstream and extremist parties continue to be fuzzy. Moreover, some formerly nationalist and extremist parties – such as the Croatian Democratic Community (HDZ), the VMRO-DPMNE in Macedonia – have undergone internal changes and moved towards the political center.

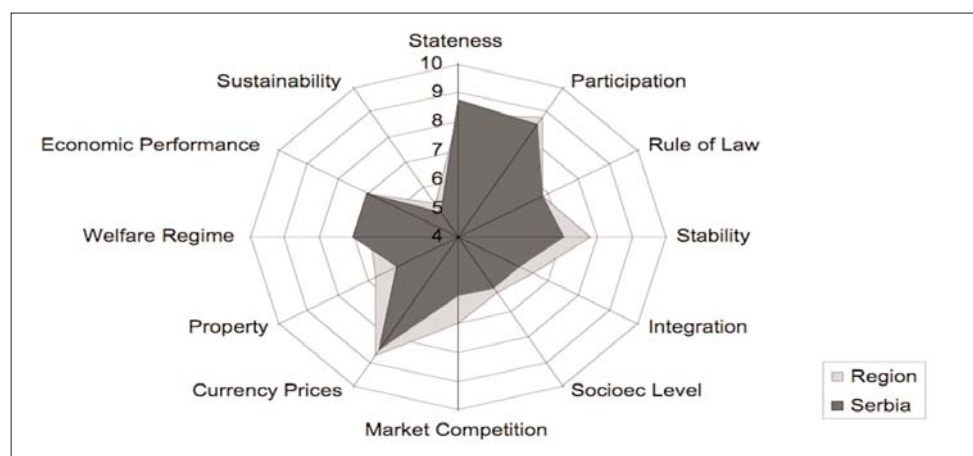
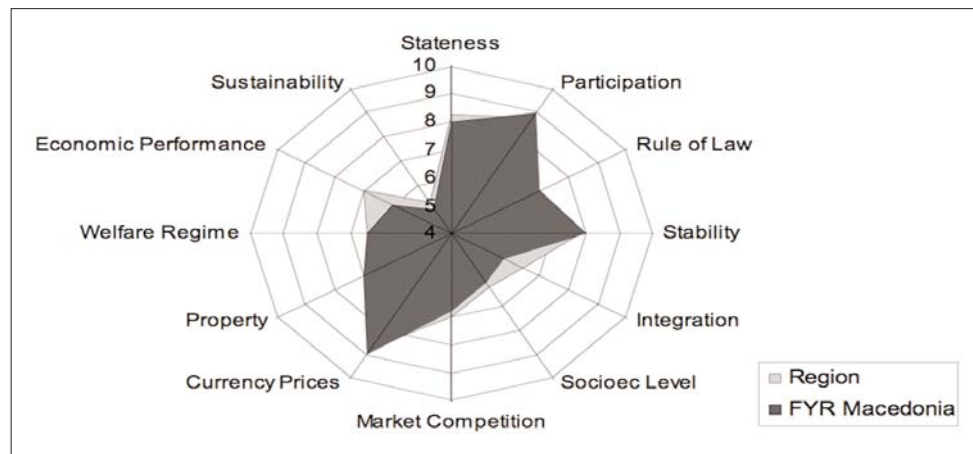
However, the ratings also indicate that Western Balkan democracies suffer not only from the gap between elites and citizens. In addition, their deficiencies are equally great with respect to the RULE OF LAW, the functioning of democratic institutions and STATENESS. This shows that the hypothesized crisis of representation coincides with other defects that can not be traced back to the causal effect of inadequate representation alone. It seems equally plausible to assume that violations of civil rights or the insufficient independence of the judiciary have contributed to public disappointment with democracy. Public disaffection and self-referential elite power struggles should therefore be seen as part of a broader syndrome where at least four additional factors play a causal role: stateness problems, deficits in the rule of law, frictions among political institutions and weak intermediary organizations.



It is difficult to sustain the hypothesis of a crisis of representation for Croatia, since the BTI scores for all five democracy criteria are more than one point higher than the Western Balkan average (see figure 3). The consistently high scores for Croatia seem to confirm that good performance with respect to one criterion of democracy can reinforce the performance with respect to another criterion.

Figures 1-5: Performance profiles of Western Balkan countries





## 2.2. Socially responsible market economy

The BTI criteria measuring the state of development of market economy comprise free, competitive markets and property rights as core institutions of a market economy, complemented by questions on the welfare regime and sustainability that reflect the principles of social justice and responsibility. In addition, aspects of economic performance are measured. If the development of a market economy in Southeast Europe is judged by these criteria, the results largely correspond to the ratings for democratic development in the region (see table 1). Only Albania would fall behind Bosnia, if economic performance were ranked separately. Croatia scores higher than the other Western Balkan countries for all seven criteria used to assess the state of market economy (see table 3). The gap between Croatia and the other Western Balkan countries is particularly large for the criteria measuring SUSTAINABILITY and the LEVEL OF SOCIOECONOMIC DEVELOPMENT. Albania, Bosnia, Macedonia and Serbia display deficiencies in all criteria, except for STABILITY OF CURRENCY AND PRICES.

### Institutional framework

The relatively high scores for this criterion reflect that all Western Balkan countries have successfully established institutional arrangements to control inflation, stabilize their currency and maintain fiscal stability. The country reports of this special issue also state that the legal and institutional framework for markets and competition has improved throughout the region. Croatia has established the most stable

and developed framework within the region; but improvements have also been made by Serbia where the parliament adopted important laws on bankruptcy, a trade register and a value added tax. All Southeast European countries concluded free trade agreements with each other in the framework of the Stability Pact for Southeastern Europe. All Western Balkan countries have started privatizing large state-owned enterprises and the share of their private sector has reached 50-60 per cent of GDP.

Albania, Bosnia and Serbia increased their gross domestic product by more than five percent in 2004. These high growth rates were accompanied by high current account deficits, reaching 19.1 per cent of GDP in Bosnia, and high unemployment rates. All Western Balkan countries with the exception of Serbia were able to gradually reduce their inflation rates to one-digit levels in 2004. Public deficits were also successfully reduced and in 2004 exceeded four per cent of GDP only in Albania and Croatia. Based upon these parameters, the economic performance was rated very similarly for all countries, with Croatia slightly above and Macedonia slightly below the average. Largely positive economic performance figures and the progress of institutional reforms are reflected by the fact that all five countries could improve their level of market economy development in comparison with the situation in 2003, as evaluated by the previous BTI.

Per capita income, however, varies widely across the region, ranging from 4700 US-Dollars in Albania to 10710 USD in Croatia (purchasing power parities, data for 2003). Social exclusion is marked and structurally ingrained in the poorer countries of the Western Balkans. Structural poverty could be found in Albania, Bosnia, Macedonia and Serbia already in the Communist period. But the main cause of impoverishment has been the wars on the territory of the former Yugoslavia. Social safety nets are inefficient and not sufficiently prepared to cope with the structural changes implied by a market economy. What is even more problematic in the long term are the low ratings for SUSTAINABILITY. They imply that environmental aspects are usually subordinated to economic development and that investments in education, research and development have decreased significantly.

Income discrepancy

**Table 3: State of market economy in Southeast Europe**

	Level of socioeconomic development	Market and competition	Stability of currency and prices	Private property	Welfare regime	Economic performance	Sustainability
Slovenia	10.0	9.0	10.0	9.5	9.5	8.0	9.5
Hungary	9.0	10.0	8.5	10.0	8.5	8.0	8.5
Croatia	8.0	8.8	9.5	8.5	8.0	8.0	7.5
Bulgaria	6.0	8.5	9.0	8.5	7.5	7.0	6.0
Romania	6.0	8.0	9.0	8.5	7.5	8.0	6.0
Macedonia	6.0	6.8	9.0	7.0	6.5	6.0	5.0
Serbia and Montenegro	6.0	6.0	8.5	6.0	7.0	7.0	5.0
Turkey	5.0	7.0	8.0	8.0	6.0	8.0	5.5
Albania	5.0	6.3	8.0	6.0	5.5	7.0	4.0
Bosnia-Herzegovina	6.0	7.0	8.5	6.0	5.5	7.0	5.0
Moldova	3.0	5.0	6.5	5.5	4.0	5.0	4.0

Source: Selected BTI ratings. Best score = 10, worst score = 1. Column headings represent the criteria outlined in the introduction to this special issue.

The country reports and ratings confirm our second hypothesis according to which the informal economy and widening social disparities undermine the institutions of market economy. In Albania, Bosnia, Macedonia and Serbia, approximately one third of the labor force is employed in the informal sector. Urban-rural disparities, disparities between regions and disparities between different ethnic groups are significant, although they do not appear so clearly in quantitative indicators measuring income disparities, such as the Gini coefficient or the quintile ratio. Moreover, since major state-owned enterprises have not yet been restructured in the four countries, mass layoffs, higher unemployment and regional as well as social disparities are likely to emerge and increase in the future.

### 2.3. Management

The Management Index assesses the management performance of political elites on the way to democracy and market economy. Based upon the literature on governance and policy reforms, the management criteria measure whether the political leadership pursues strategic priorities, acts effectively, builds a consensus in society and cooperates with foreign and international actors. These criteria are weighted with the level of difficulty that assesses the structural difficulties of management. The scores for all individual criteria, the level of difficulty, the unweighted management scores, the Management Index and the ranks are displayed in table four.

Since the index is conceptually related to constitutional democracy and socially responsible market economy, it is not surprising that the management ranking of our five Western Balkan countries is similar to the ranking for the state of democratic and economic development (tables 4 and 1). Croatia leads by more than one point on the Management Index, followed by Macedonia and, with a slightly weaker performance, Albania and Serbia, whereas Bosnia clearly lags behind. Although the level of difficulty takes into account the more auspicious structural circumstances in Croatia compared with the other four Western Balkan countries, the weighting does not change the relative positions of countries, as indicated by the unweighted mean scores for management (table 4).

If the alignment of the five countries is compared with their relative positions on the Status Index, we notice that Albania's management performance is rated better than its level of democracy and market economy whereas Bosnia's distance from the other four countries is larger on the Management Index.<sup>7</sup> The relatively bad management performance of Bosnia's political elites constitutes, however, a significant improvement compared to the period between 1998 and 2003, measured by the BTI 2003. In contrast, the management performance of Serbia's political leadership declined in comparison with the previous BTI that rated the first years of the Djindjic government with its impressive initial record of reforms.

The difference between Croatia and the other four countries is evident if the four disaggregated ratings are compared. Albania, Bosnia, Macedonia and Serbia all receive the same scores for STEERING CAPABILITY, indicating a limited capacity for strategic prioritization, effective implementation and learning. In Bosnia, for example, reforms were primarily initiated by the High Representative while politicians of the three constituent peoples frequently opposed or obstructed reforms. In the case of Bosnian police reforms, the Bosnian Serb members of the state government resigned in order to protest against the implementation of these reforms.

In Albania, Bosnia and Macedonia, governments are considered least effective in using available resources, coordinating among competing objectives and combating corruption. In the cases of Bosnia and Macedonia, one of the reasons is that inter-ethnic power sharing arrangements require the preservation of expensive administrative structures to ensure ethnic proportionality. Regarding Albania, the country report notes that the government and other political actors have failed to establish most integrity mechanisms required to combat corruption effectively.

Consensus-building is particularly problematic in Bosnia, as the major parties subordinate democracy to the interests of their respective ethnic constituency. They have failed to reduce ethnic cleavages and do nothing to promote civic engagement and solidarity beyond their own ethnic community. The different communities have not yet overcome the legacy of the war and taken significant steps towards reconciliation, although the government of the entity dominated by Bosnian Serbs has acknowledged the mass murder committed by Bosnian Serb forces in Srebrenica.

Ethnic cleavages in Bosnia

In Macedonia, successive governments sought to bridge the ethnic cleavage by co-opting parties representing Macedonian Albanians. However, the campaign against the law on the territorial-administrative restructuring showed that the major opposition party did not fully accept the Ohrid Agreement that sought to end the inter-ethnic conflict of 2001. Although the referendum initiated by this campaign failed in November 2004 due to insufficient electoral turnout, opinion polls document that a significant part of the population rejected the change of municipal boundaries and thus a key component of the Ohrid Agreement.

In Albania, power struggles between the Democratic Party, the Socialist Party and their recently established split-offs delayed the reform process. Croatia received high scores for CONSENSUS-BUILDING inter alia because the Croatian prime minister Sanader was able to include the party representing Croatia's ethnic Serbian minority. This contributed to overcoming the legacy of violent conflict between Croats and ethnic Serbs living in Croatia.

In contrast with Croatia, the other four Western Balkan countries were less effective in using international support to improve their domestic reform policies and acted less reliably and credibly in their relations with the international community. This assessment does apply mainly to political cooperation whereas economic cooperation was characterized by effective transnational policy transfers, high reliability and stability. The growing trust in the economic policies implemented by Western Balkan governments and central banks is also documented by the increasing inflows of foreign capital into the region. Bosnia, Croatia and Serbia did not sufficiently cooperate with the International Criminal Tribunal for the Former Yugoslavia to seize and extradite indicted war criminals. Serbia's government also failed to cooperate sufficiently in the disputes on the future status of Kosovo and the future of the State Union of Serbia and Montenegro. In Albania, partisan political polarization and severe problems with the rule of law stalled the negotiations on a Stabilization and Association Agreement with the EU. Relations with neighboring countries, however, were improved by all five countries, although not all disputes could be solved.

International cooperation

Table 4: Management Index scores for Southeast European countries

	Level of difficulty	Steering capability	Resource efficiency	Consensus-building	International cooperation	Management (unweighted)	Management Index	Rank
Slovenia	1.2	9.0	9.0	9.5	9.3	9.2	7.41	4
Croatia	2.5	8.7	7.3	8.0	9.0	8.3	6.88	12
Hungary	1.4	8.3	7.3	8.7	9.3	8.4	6.81	15
Turkey	5.0	8.0	6.3	6.7	8.3	7.3	6.52	16
Bulgaria	3.1	7.0	6.7	8.4	8.7	7.7	6.51	21
Romania	3.8	7.3	6.7	7.3	8.0	7.3	6.33	24
Macedonia	4.6	5.7	5.0	6.8	7.7	6.3	5.54	42
Albania	4.9	5.7	4.3	6.3	7.7	6.0	5.32	46
Serbia and Montenegro	4.5	5.7	5.3	5.8	7.3	6.0	5.31	48
Bosnia-Herzegovina	4.9	5.7	4.3	5.2	6.0	5.3	4.69	65
Moldova	6.1	3.0	3.0	4.3	5.0	3.8	3.50	95

Source: Selected BTI ratings. Best score = 10, worst score = 1, except for the level of difficulty where 10 represents the most difficult and 1 the least difficult structural conditions. Column headings represent the criteria outlined in the introduction to this special issue. The unweighted management scores are the means of the criteria scores.

#### Implementation of reforms

The country reports and ratings provide some evidence supporting our hypothesis that liberal and Western-oriented political actors were barred from sustaining democratic and economic reforms. The BTI ratings for STEERING CAPABILITY and CONSENSUS BUILDING can be seen as indicators to test this hypothesis. Croatia's steering capability is rated higher than the capabilities of the other four countries, corresponding to the fact that Croatia's chances to join the EU are the best among the Western Balkan countries. The more remote prospect of EU membership is associated with a weaker capacity to maintain strategic priorities and to implement reforms. Admittedly, this association does not reveal whether the main causal effect is directed from the prospect of EU membership toward strategic priority-setting or vice versa.

One of the questions constituting the CONSENSUS BUILDING criterion asks whether the major political actors agree on democracy and market economy as strategic, long-term aims. This question is rated highly for all Western Balkan countries except for Bosnia and Serbia. In Bosnia, the formal commitment of political leaders to democracy and market economy is subverted by opposed concepts of statehood that guide the policies of the major parties representing Bosniaks, Croats and Serbs. In Serbia, the basic consensus on market-based democracy is undermined by populist political actors. The most popular of these actors is the Serbian Radical Party which advocates, inter alia, the annexation of territories populated by ethnic Serbs in Bosnia and Croatia. This indicates that liberal political actors in Bosnia and Serbia lacked clear electoral majorities and faced the greatest difficulties in sustaining political and economic reforms.

#### Sustainability of reforms

However, these political constellations are more auspicious in Albania, Croatia and Macedonia and they have not significantly affected key economic reforms in any of the five countries. This contradicts our hypothesis, suggesting that liberal economic reform policies may be shielded against those who seek or claim to represent the losers of these reforms. In addition, the country reports and ratings may not (yet) reflect the mid- or longterm effects of a stalled enlargement process.

### 3. A Western Balkan exceptionalism?

The performance profiles discussed in the first section have shown considerable variety among the five countries that are compared here. How significant this variety is, can only be measured by locating the Western Balkan countries in comparison with countries outside the region. Based upon the BTI data, this section compares our five countries with the new EU member states including Bulgaria and Romania as well as with Latin American countries. This comparison is also intended to assess whether the three hypotheses denote specific, exceptional problems of the Western Balkan countries or more general challenges for young democracies and emerging market economies.

Interregional comparison

The tables in the first section provide ratings for other Southeast and East Central European countries in addition to the Western Balkans. They show that Croatia's aggregate ratings for democracy, market economy and the management performance of its political elites are higher than those of Bulgaria and Romania. These two Southeast European countries are ranked between Croatia and the other four Western Balkan countries for 14 of 16 BTI criteria. Turkey is another Southeast European country and candidate for EU membership whose ratings for the state of democracy and market economy are similar to the four weaker Western Balkan countries. The positioning of Turkey, Bulgaria and Romania suggests that these countries might be included into a larger Southeast European cluster, rather than focusing solely on the five Western Balkan countries.

Due to greater structural difficulties, reflected in the LEVEL OF DIFFICULTY, Turkey's management performance is rated higher than the performance of Bulgaria, Romania, and Croatia's performance turns out to be higher than Hungary's. In comparison with Hungary and Slovenia, Croatia's main deficiencies concern the rule of law (in particular its less independent judiciary) and its somewhat weaker investment in environmental protection and education. While Croatia is indeed closer to these East Central European countries than to the other Western Balkan countries, there is a significant difference between Albania and Bosnia as the weakest Western Balkan performers and Moldova. This Southeast European successor state of the former Soviet Union has obtained lower ratings for the state of democracy, market economy and political management. However, the distance between Croatia and the weakest Western Balkan country is larger than the distance between the weakest Western Balkan country and Moldova, confirming the heterogeneity of the Western Balkan group.

To extend the comparison, we have calculated the BTI mean scores attained by democracies in other regions of the world (table 5). Democracies are defined as countries in which free and fair elections take place and in which rulers are subject to a minimum of constitutional checks and balances. As indicated by the shaded cells in the table below, the Latin American and Caribbean democracies (in the following: Latin American democracies) are assessed as most similar to the Western Balkan countries. Four of the five democracy criteria are rated similarly for the 19 Latin American democracies assessed by the BTI.<sup>8</sup> Of the seven market economy criteria, three criteria referring to the institutions and structures of a market economy are rated similarly, while ECONOMIC PERFORMANCE and SOCIOECONOMIC DEVELOPMENT are considered higher for the Western Balkan countries. The LEVEL OF DIFFICULTY and CONSENSUS BUILDING are the most comparable components of the management rating.

Similarity to Latin  
American democracies

These similarities suggest that we can find similar patterns of democracy, market economy and management in the Western Balkans and Latin America. The table also shows that there is a significant gap between the new EU member states from East Central Europe and the Western Balkan countries, even if Bulgaria and Romania are included in the former group.

Table 5: Average ratings for Western Balkan and other democracies

	Western Balkans	East Central Europe, BG, RO	Latin America and the Caribbean	Eastern and Southern Africa	Asia and Oceania	CIS and Mongolia	Central and	democracies except WB
n	5	10	19	11	10	6	8	66
State of democracy	7.62	9.04	7.38	7.21	6.78	6.08	6.93	7.33
State of market economy	6.76	8.60	6.25	5.86	6.39	5.98	4.91	6.38
Status Index	7.19	8.82	6.81	6.54	6.59	6.03	5.92	6.85
Management Index	5.55	6.88	5.54	6.05	5.44	4.60	5.91	5.78
Stateness	8.3	9.6	8.3	8.3	7.1	7.2	7.4	8.1
Participation	8.8	9.7	8.3	7.8	7.7	6.8	7.9	8.1
Rule of law	6.8	8.8	6.4	6.8	6.5	5.5	5.9	6.7
Stability	7.8	9.3	7.6	7.2	6.7	5.9	7.4	7.5
Integration	6.5	7.8	6.4	6.1	6.0	5.1	6.1	6.3
Socioeconomic level	6.2	8.0	5.2	3.5	5.8	4.6	1.9	5.0
Market & competition	7.0	9.3	6.8	6.2	6.6	5.8	5.3	6.8
Currency & prices	8.7	9.4	7.7	7.8	7.2	8.5	7.4	7.9
Private property	6.7	9.5	7.2	7.3	7.3	5.9	5.9	7.3
Welfare regime	6.5	8.2	5.4	4.4	5.2	5.1	4.1	5.4
Economic performance	7.0	8.2	6.6	6.6	7.2	7.2	6.4	7.0
Sustainability	5.3	7.7	4.9	5.2	5.5	4.8	3.4	5.3
Difficulty	4.3	2.1	4.4	5.6	5.5	4.9	7.0	4.8
Steering capability	6.3	8.2	6.0	6.2	5.9	5.0	5.6	6.2
Resource efficiency	5.3	7.4	4.9	5.4	5.0	4.4	4.9	5.4
Consensus building	6.4	8.5	6.4	7.0	5.9	5.2	6.7	6.7
International cooperation	7.5	9.3	8.1	8.3	7.5	6.1	8.2	8.1

Source: BII ratings, unweighted means. Best score = 10, worst score = 1, except for the level of difficulty where 10 represents the most difficult and 1 the least difficult structural conditions. Bold figures denote those ratings that are most similar to the Western Balkan averages. Note that only democracies in countries with more than three million inhabitants are included.

Low scores for Rule of Law

This gap is most dramatic for the management, RULE OF LAW, MARKET AND COMPETITION, PRIVATE PROPERTY and SUSTAINABILITY criteria. These differences between East Central Europe and the Western Balkans put our three hypotheses in a different perspective. If viewed from East Central Europe with its successful record of democratic consolidation, the main problem of the Western Balkan countries seems to be the low level of the RULE OF LAW, not the syndrome of elite power struggles and public disaffection with democracy. The disaggregate ratings for RULE OF LAW point to a systematic lag existing for all four questions that constitute this criterion (figure 6).



Institutional reforms

Compared with East Central Europe, the greatest deficiencies are not related to social disparities, reflected in the SOCIOECONOMIC DEVELOPMENT and WELFARE REGIME criteria, but the more complex institutional reforms required to improve the quality and competitiveness of a market economy, such as privatization, establishing a market-oriented regulatory framework or reforms of education and infrastructure. The eroding impact of the informal economy in Southeastern Europe is, however, manifested in the large divergence with respect to MARKET AND COMPETITION. Comparing the management ratings for East Central Europe and the Western Balkans reveals systematic deficiencies affecting all four criteria. STEERING CAPABILITY and CONSENSUS BUILDING, the criteria reflecting the extent to which democratic and economic reforms are sustained, are not assessed significantly weaker than RESOURCE EFFICIENCY or INTERNATIONAL COOPERATION (figure 7).

Figure 6: Rule of law ratings for Western Balkan and East Central European countries

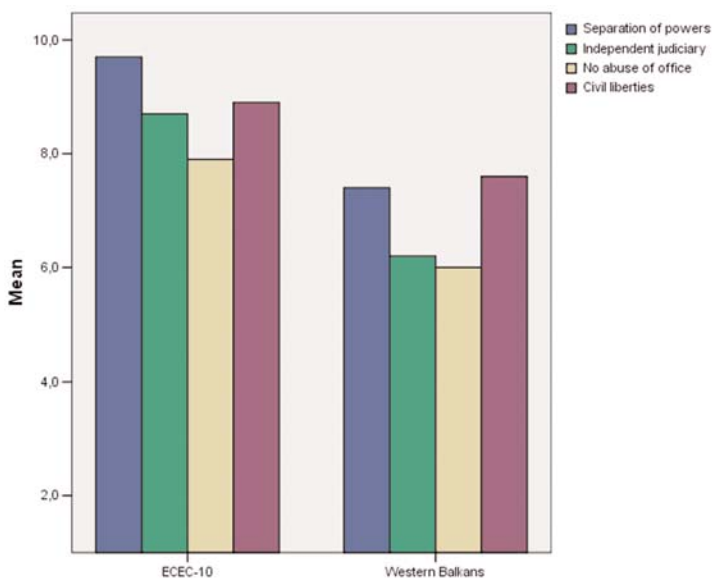
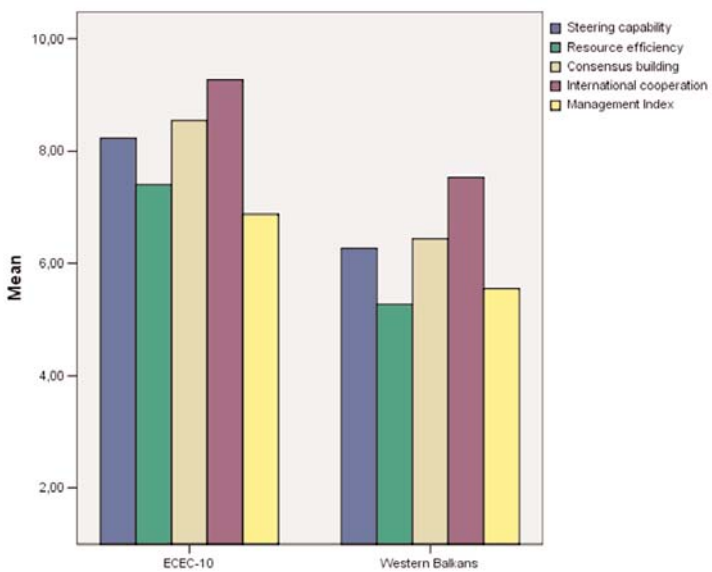


Figure 7: Management ratings for Western Balkan and East Central European countries



“Latinization” or  
Europeanization?

If the Western Balkan countries differ so much from the East Central European countries, Bulgaria and Romania, do they have more in common with the patterns of democracy and market economy in Latin America? Can we observe a “Latinization” rather than a Europeanization of the Western Balkans? Many Latin American democracies are characterized by unfulfilled social expectations, weak structures of political representation, populism, bad governance and the general weakening of reform dynamics (“Latin disease”). While the aggregate ratings support the impression of a similarity between these two regions, an analysis of the disaggregate scores reminds us of the divergent composition of several criteria ratings.

Although the mean scores for STATENESS are identical in the two regions (8.3), the disaggregate scores show that Latin American states have more difficulties in exercising their monopoly on the use of force and ensuring working administrative structures throughout the country (figure 8). These problems, which have their origins in the colonial era and in the structure of Latin American societies, were not resolved during the different waves of modernization and affect all countries with the exceptions of Chile, Uruguay, Costa Rica and Jamaica. Western Balkan states, in contrast, are characterized by more severe nationality conflicts and churches exerting political influence. If the disaggregate scores for CONSENSUS BUILDING are analyzed, we find that anti-democratic veto players appear to be less problematic in Western Balkan states, perhaps reflected in the broader or more stable agreement among major political actors on the aims of democracy (figure 9). On the other hand, political elites in the Western Balkans have had more difficulties in managing societal cleavages and in achieving reconciliation for the war crimes and injustices.

Figure 8: Stateness ratings for Western Balkan and Latin American democracies

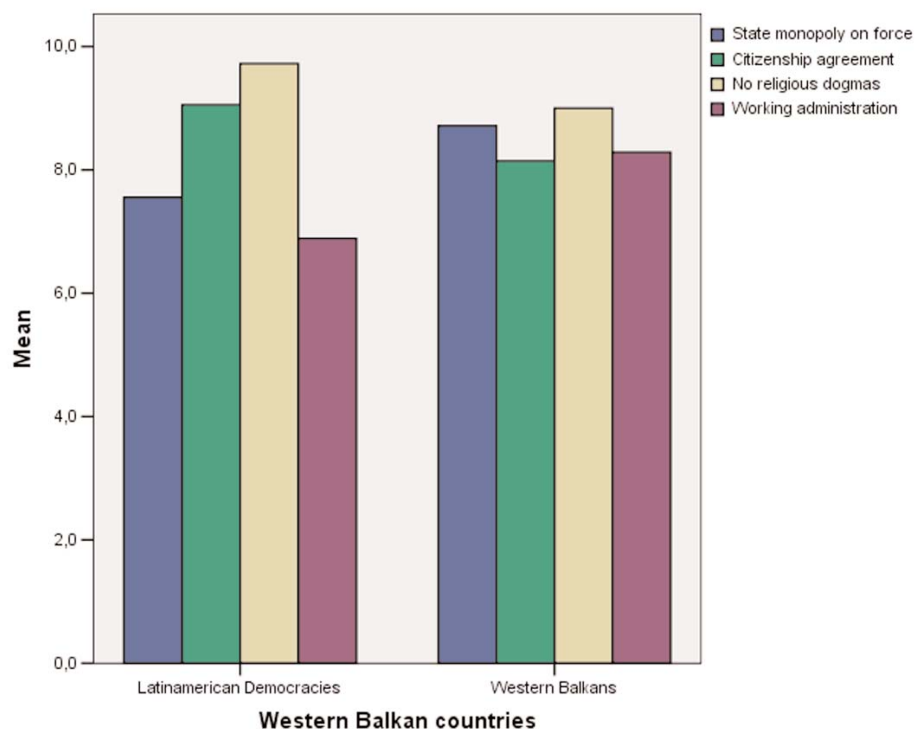
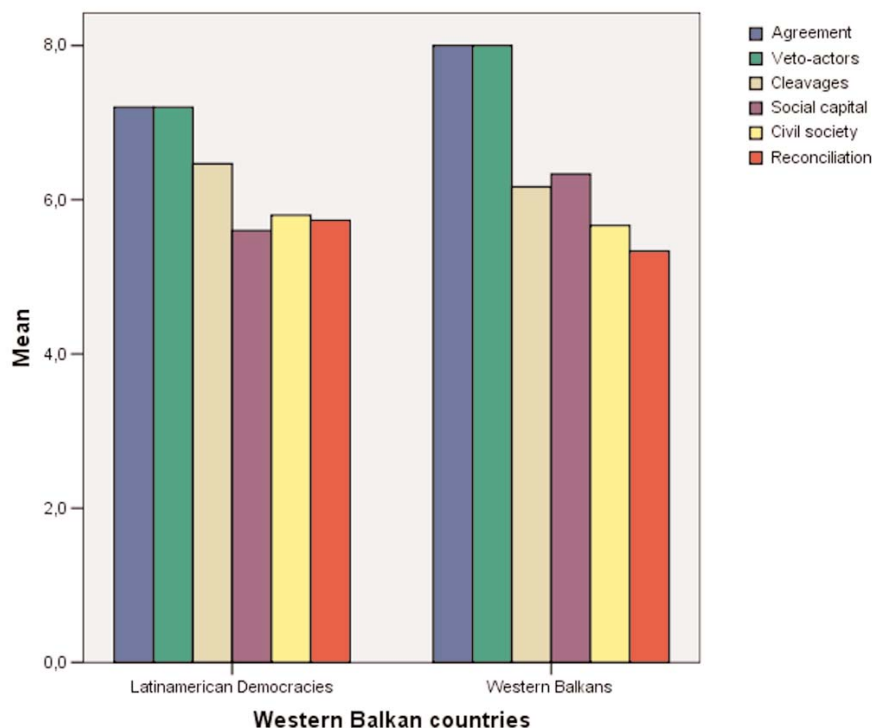


Figure 9: Consensus building ratings for Latin American and Western Balkan countries



The disaggregate scores for the other management criteria as well as for PARTICIPATION, STABILITY and POLITICAL AND SOCIAL INTEGRATION are, however, quite similarly structured. These findings tend to confirm the general similarity between Latin American and Western Balkan countries. This implies that our hypothesized representation crisis can also be observed in Latin American democracies and thus appears to denote a general challenge for new democracies. However, “state weakness”, seen as an important determinant of the representation crisis in the Western Balkans, is configured differently in Latin America. Our third hypothesis about the failure of reform-minded elites to sustain democratic and economic reforms seems to apply better to Latin American countries, if the ratings for the agreement on democracy and market economy and for strategic prioritization are taken as proxies for this management capacity. The Latin American democracies score lower than the Western Balkan countries on both questions.

The variance among Latin American democracies might be too great for a serious comparison with Western Balkan countries. However, the general similarity can be confirmed if we take a closer look at subregions. The BTI profile of the Western Balkan states is closer to Central America than to the more developed Southern Cone of Latin America or to the Andean region (see table 6). Concerning the transformation management, Croatia is rated closer to Costa Rica and even Chile than to other Latin American states, although there is no Latin American country with exactly the same management profile. In contrast, the performance of the other four Western Balkan countries is similar to the five Central American countries studied by the BTI (excluding Costa Rica).

Table 6: Management Index scores for Western Balkan and Central American countries

	Level of difficulty	Steering capability	Resource efficiency	Consensus-building	International cooperation	Management (unweighted)
Croatia	2.5	<b>8.7</b>	<b>7.3</b>	<b>8.0</b>	<b>9.0</b>	<b>8.3</b>
Costa Rica	<b>2.3</b>	7.3	<b>7.0</b>	9.0	<b>8.7</b>	<b>8.0</b>
Chile	3.1	<b>8.7</b>	9.0	<b>8.2</b>	9.7	<b>8.9</b>
WB 4	4.7	5.7	4.8	6.0	7.2	5.9
CA 5	5.3	5.7	4.6	5.7	8.3	6.1

Figures in bold denote most similar scores. CA 5 = El Salvador, Guatemala, Honduras, Nicaragua, Panama; WB 4 = Albania, Bosnia, Macedonia, Serbia

Risk of a “Latino syndrome”

Regarding the state of democracy and market economy, the similarity is distorted by a well-known “Latino syndrome”, namely the social disparities, extreme poverty and lacking welfare mechanisms that affect the region as a whole. This does not apply to Costa Rica, whose welfare regime and social standards are clearly above the Latin American average. Costa Rica’s scores for democracy and market economy closely resemble Croatia’s scores, except for the RULE OF LAW and THE STABILITY OF CURRENCY AND PRICES (see tables 7 and 8). In sum, the Western Balkan countries are still profiting from higher levels of development and welfare, but their transformation management leaves some doubt if they are able to meet citizen’s demands and expectations. They should be cautious not to be affected by the “Latino syndrome” which is easy to enter but difficult to escape.

Table 7: State of democracy in Croatia and Costa Rica

	Stateness	Political participation	Rule of law	Institutional stability	Political and social integration	Democracy
Costa Rica	9.5	10.0	9.3	9.5	8.8	<b>9.4</b>
Croatia	9.5	10.0	8.3	9.5	8.3	<b>9.1</b>

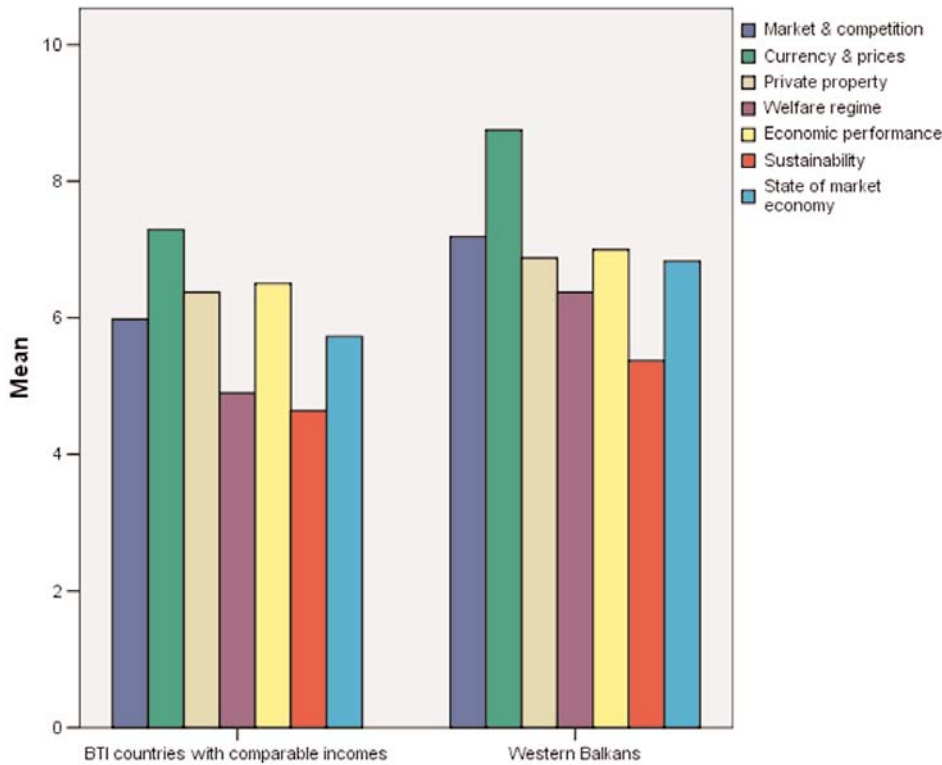
Table 8: State of market economy in Croatia and Costa Rica

	Socioeconomic level	Market and competition	Currency and prices	Private property	Welfare regime	Economic performance	Sustainability	Market economy
Costa Rica	8.0	8.0	8.0	8.5	8.0	8.0	7.5	<b>8.0</b>
Croatia	8.0	8.8	9.5	8.5	8.0	8.0	7.5	<b>8.3</b>

Threats to market economy

To test our second hypothesis about the erosion of market institutions, we compare the Western Balkan countries with 41 countries at comparable levels of gross national income per capita in 2003 (purchasing power parities). We set 4000 USD as the lower and 12000 USD as the upper limit, roughly corresponding to the levels of Albania (4700 USD) and Croatia (10710 USD). This comparison shows that the market economy ratings of Western Balkan countries are higher than the average of other economies with similar income levels, but their performance profiles are quite typical for economies at this level of development (figure 10). We may therefore conclude that the weakening of market economy institutions by a shadow economy and by widening social disparities appears to be a more general phenomenon that can be observed in economies at intermediate income levels across the world, even if the conditions, dynamics and effects may vary widely.<sup>9</sup>

Figure 10: Market economy ratings for Western Balkan and comparable BTI countries



#### 4. Conclusion

Underscoring the variety of Western Balkan countries, our multidimensional comparison has provided a qualified confirmation for our three hypotheses. There is an evident public disappointment with the performance of democratic institutions, coupled with weak intermediary organizations and significant populist or nationalist voices, but this belongs to an interplay of mutually reinforcing defects that can also be observed in Latin American countries. Moreover, problems with the rule of law seem to make the key difference between the Western Balkans and the new EU member states from East Central Europe if the average ratings for both regions are compared. These problems comprise the independence and interdependence of state powers including an independent judiciary, the effective sanctioning of public officeholders misusing their positions to further their private interests and the effective protection of civil rights.

Western Balkan countries are characterized by significant informal sectors, increasing social inequalities and fragile or insufficient electoral majorities for liberal reformers, but the country reports also note that market reforms have been continued and economic performance has improved. In comparison with East Central European averages, the BTI ratings display relatively larger development gaps with respect to SUSTAINABILITY, PRIVATE PROPERTY and MARKET AND COMPETITION. The agreement among major political actors to establish democracy and market economy is considered broader and more stable than in Latin America. This seems to be causally linked with larger social disparities and a lower level of socioeconomic

Development gaps

development in Latin America, which have become politically more salient during the last years, especially in the Andean region.

Whether the political leaders of the Western Balkan countries sustain democratic and economic reforms or whether Europeanization prevails over tendencies toward "Latinization", can be fully assessed only by future studies that can take into account the social and political impact of the challenges ahead, namely the restructuring of large publicly owned enterprises and a stagnating enlargement process.

However, what is obvious from this edition of the BTI is the persistent gap between East Central European and the four poorer Western Balkan countries. The management performance of Albania, Bosnia, Macedonia and Serbia for all four management criteria is more than two points weaker than the average for East Central Europe including Bulgaria, Croatia and Romania. This suggests that the four problem countries from the Western Balkans not only lag behind in the development of democracy and market economy, but also lack sufficient governance capacities to catch up with East Central Europe. Developing these capacities appears to be the key to sustainable conflict settlements and to EU membership strategies for this part of Europe.

## Notes

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- 5) International Commission on the Balkans, op. cit. (note 1).
- 6) Bertelsmann Foundation, 2005: *Bertelsmann Transformation Index 2003*. Gütersloh.
- 7) It should be noted that the absolute management scores are not directly comparable with the status scores as the latter are spread between 1.36 and 9.45 for the 119 BTI countries, while the former range only between 1.55 and 7.57.
- 8) The following Latin American and Caribbean countries are taken into account here: Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela.
- 9) Schneider, Friedrich and Klingmair, Robert, 2004: *Shadow Economies around the World. What Do We Know?*. ( Working Paper No. 0403) Linz. Krastev, Ivan, 2002: *The Inflexibility Trap: Frustrated Societies, Weak States, and Democracy*. Bratislava.



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