Top 10

Rank	Status Index	Score
1	Taiwan	9.58
2	Czech Republic	9.51
3	Estonia	9.42
4	Uruguay	9.33
5	Poland	9.16
6	Slovenia	9.11
7	Lithuania	8.98
8	Chile	8.82
9	Slovakia	8.79
10	Costa Rica	8.74

Rank	Political transformation	Score
1	Uruguay	9.95
2	Estonia	9.70
3	Taiwan	9.65
4	Czech Republic	9.60
5	Poland	9.35
6	Costa Rica	9.30
6	Slovenia	9.30
8	Lithuania	9.25
9	Chile	9.10
10	Slovakia	9.05

Rank	Economic transformation	Score
1	Taiwan	9.50
2	Czech Republic	9.43
3	Estonia	9.14
4	Poland	8.96
5	Slovenia	8.93
6	Singapore	8.89
7	Lithuania	8.71
7	South Korea	8.71
7	Uruguay	8.71
10	Chile	8.54
10	Slovakia	8.54

Rank	Transformation management	Score
1	Taiwan	7.68
2	Uruguay	7.46
3	Brazil	7.30
4	Estonia	7.26
5	Chile	7.22
6	Poland	7.21
7	Slovakia	7.09
8	Lithuania	7.08
9	Botswana	6.92
9	South Korea	6.92

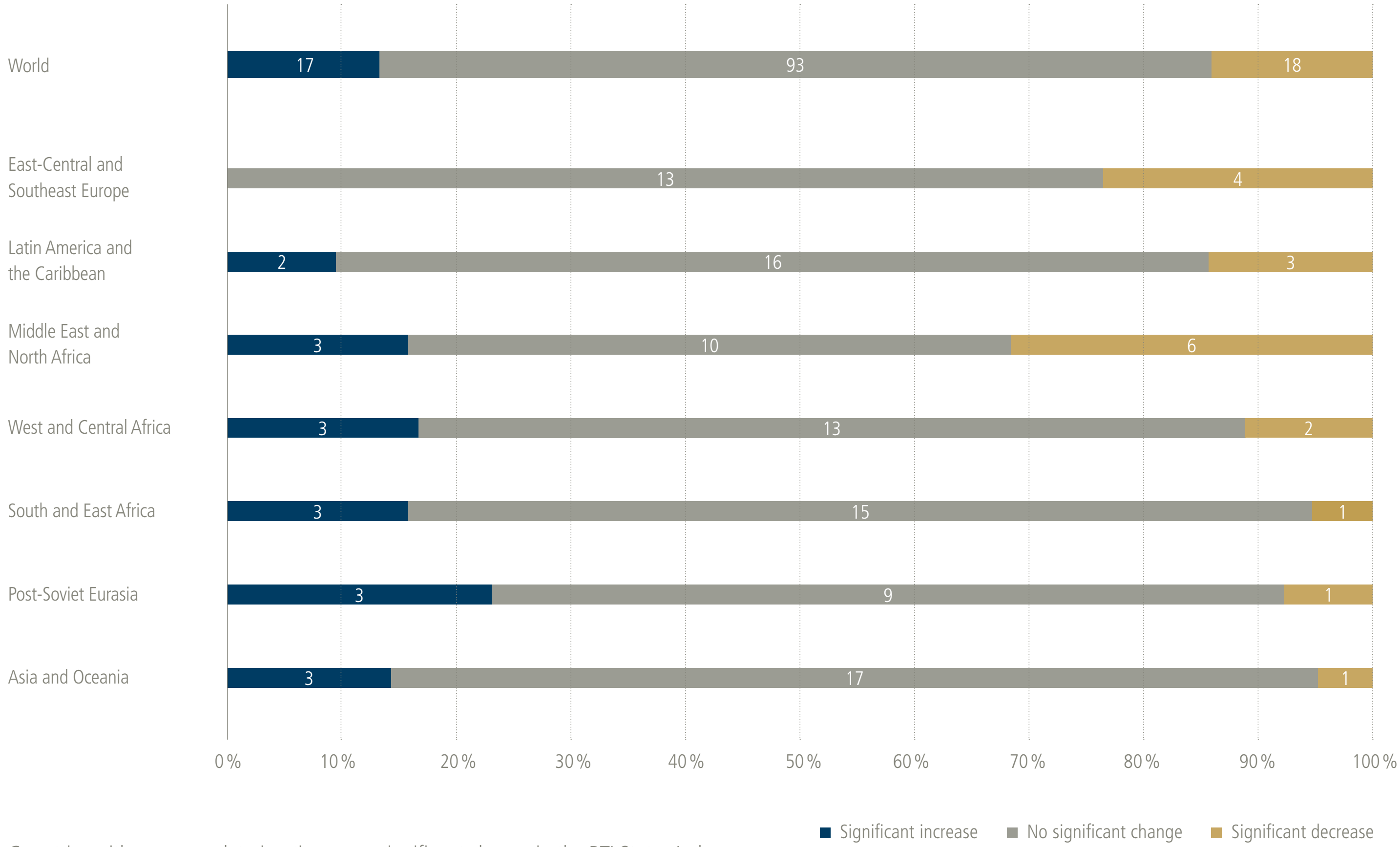
Global Findings

Dramatic changes below the fold

On balance, the last two years have brought no positive change in transformation processes worldwide. In fact, the BTI 2014 records a slight fall (–0.04) in the global average for the 129 emerging and developing countries assessed in terms of where they stand in establishing and cultivating a democracy under the rule of law and a market economy anchored in principles of social justice. As minimal as the registered fall in economic transformation was (–0.07), the fall in political transformation was negligible (–0.02). And if we adjust the 2012 and 2014 scores to exclude South Sudan – which is surveyed by the BTI for the first time this year – this yields a leveling out globally of scores for democracy.

This modest outcome stands in contrast to the series of dramatic developments that marked the review period from January 2011 to January 2013. The earnest efforts on the part of several governments to restore economic stability in the wake of the global financial crisis proved to be a politically thorny, and often highly polarizing, undertaking. Economic conditions improved in the resource-rich Gulf states, as they did in some East-Central European and Latin American countries. In East-Central Europe, it was above all the Baltic state governments that resolutely introduced spending cuts in order to consolidate their budgets while nonetheless, at the same time, avoid a lasting economic downturn. But the real focus of global interest since the spring of 2011 has been the political upheaval in the Arab world. With it came the hope that a region which has been governed almost entirely by autocratic regimes might embark on a sustainable process of democratization. The Arab Spring has seen the collapse of the presidential regime of Ben Ali in Tunisia and Hosni Mubarak in Egypt, the deposition of Muammar al-Qadhafi in Libya, the abdication of Ali Abdallah Salih in Yemen, and revolts against the Al-Khalifa monarchy in Bahrain and the Bashar al-Assad regime in Syria. Together, this represents a wave of upheavals unlike anything the world has seen since 1989.

Changes in the state of transformation worldwide, BTI 2012 – BTI 2014



Countries with progress, deterioration or no significant change in the BTI Status Index

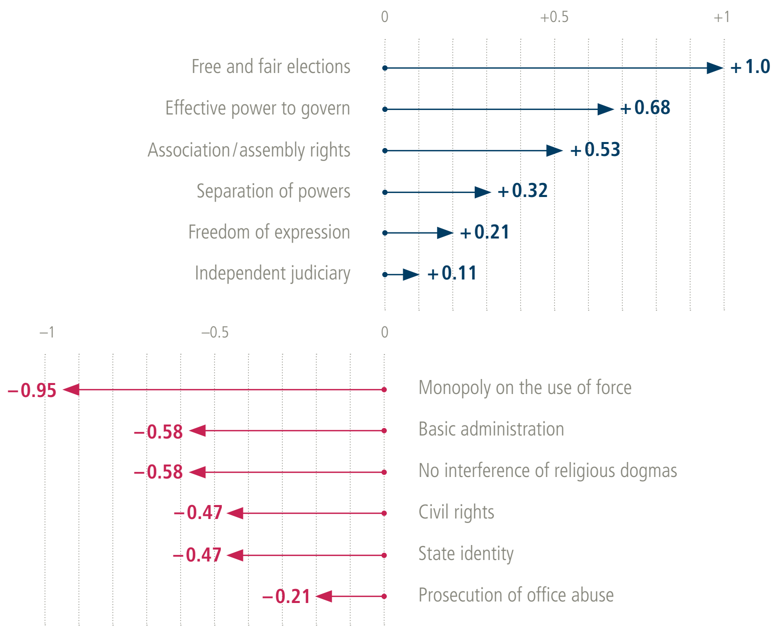
And yet these changes in the Arab world account for the relative "stagnation" conveyed by the scores for this edition of the BTI. For one thing, those countries recording the largest gains and losses within a given region often cancel each other out. Tunisia's democratization process, for example, yields scores that are balanced by the scores resulting from Syria's civil war. Economically devastated countries, such as Sudan and Yemen, face off against prospering, stable Gulf states, such as Kuwait and Qatar. And within individual countries, advances and setbacks also offset each other in many cases. At + 0.23, the overall results for the United Arab Emirates are modest given the country's excellent economic development (+ 0.68 in market economy status), but they derive in large part from the fact that the country's leaders further reduced already highly circumscribed political and civil rights (– 0.22 in democracy status).

Progress comes at a price

Ultimately, however, and this represents a rather typical outcome among BTI countries affected by the Arab Spring, progress in one area comes at a cost to other development factors. In countries like Egypt, Libya and Tunisia, political participation rights leapt ahead, while civil rights and protection against discrimination suffered measurably. In those countries subject to processes of upheaval, gains in the area of democratization were often accompanied by a loss of institutional stability, resulting in lower results for stateness.

And while this leveling effect can be observed within regions, it is even more apparent on a global scale: Those countries registering large gains in transformation, such as

More rights, less protection: the Arab Spring's mixed balance



Score changes in selected indicators, Middle East and North Africa, BTI 2012 – BTI 2014

Côte d'Ivoire (+1.22 in the Status Index), Bhutan (+1.12) and Myanmar (+0.87), are offset by those registering large losses, such as Mali (–2.00), Syria (–1.72) and Sri Lanka (–0.64); political setbacks in one region (East-Central and Southeast Europe, –0.14) are balanced by modest progress toward democratization in another (Asia and Oceania, +0.11).

Economic success doesn't always go hand in hand with democracy

Although the aggregated nature of the Status Index ultimately tends to level out opposing developments and therefore conceal them, the ranking it yields is essential for contextual purposes. The individual steps taken toward establishing a democracy under the rule of law and a market economy anchored in principles of social justice are most meaningful and best understood when considered against the sum of political and economic transformation processes underway worldwide. This issues from the belief that there is always a connection between political and economic factors, and that this connection determines a population's well-being and freedom of action. Moreover, political developments are most meaningfully understood when considered with a view to their socioeconomic context, just as the scope for economic development is best understood to be determined significantly by political conditions.

Ultimately, the goal is to avoid blind spots. For example, from a purely economic perspective, the city-state of Singapore is a success. Despite having slipped somewhat in the current BTI ranking, at sixth place, it is one of the top performers in economic transformation and has mitigated socioeconomic disparities while promoting sustainability. Nonetheless, Singapore is largely governed as an autocracy with highly circumscribed political rights and only a partially functioning rule of law. In its current form, Singapore's government has almost completely exhausted its transformation potential and will only move up from its current place in the Status Index (24) when economic liberalization is matched by political liberalization. This applies similarly to China, Malaysia and Sri Lanka as well as the Gulf states Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates (UAE), which all rank in the upper third for economic transformation. However, here, too, a look at the Status Index is instructive in differentiating among this group of economically successful autocracies: While Kuwait, Malaysia, Qatar and the UAE find themselves between 43rd and 53rd place in the Status Index, the other authoritarian countries are found in the bottom half. This is because deficits in the rule of law and participation rights are so egregious in the autocracies of Bahrain, China and Oman that the scores for these indicators pull each country's democracy score down toward the lower end of the scale (Bahrain: 106, China: 113, UAE: 114).

We see examples of the obverse as well. The Status Index, particularly between 50th and 65th place, features a few countries whose mostly compelling democratic transformation results have been weighed down by problematic economic development. These mostly African countries, including Kenya, Malawi, Senegal and Zambia, but also Bhutan and Honduras, appear well in to the upper half of the ranking for political transformation and are classified by the BTI as (defective) democracies, but they hover around 80th place in economic transformation and are largely defined as "poorly functioning" market economies. A democracy like the West African country Benin (democracy status: 26), which finds itself at the threshold of consolidation, is drawn so far down by its economic results that it obtains only the status of "limited" overall development in the Index. Despite their continually high performance in political transformation, countries such as Liberia and Niger, which suffer from mass poverty and social exclusion, are at 71st and 76th place ("very limited"), respectively.

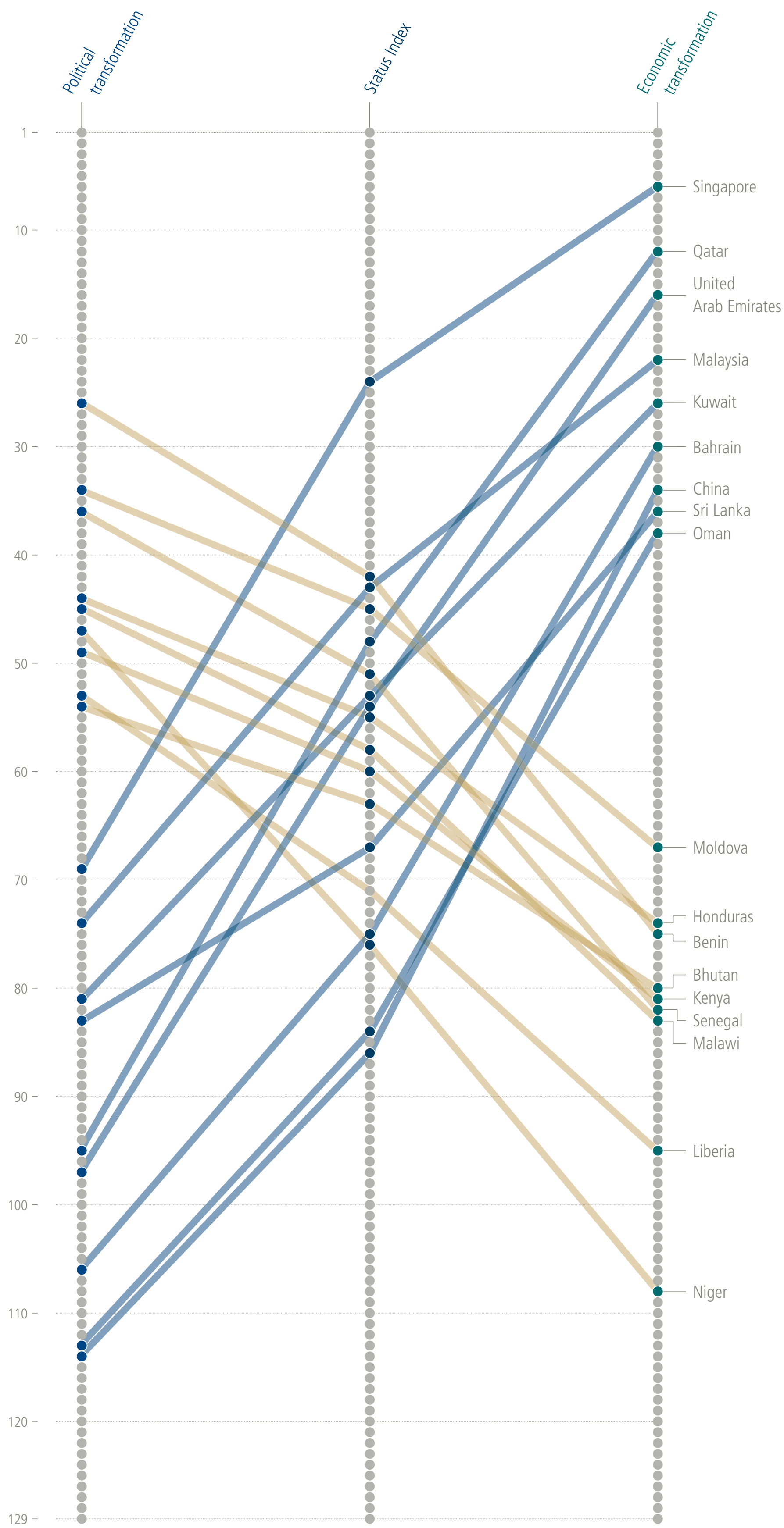
11 front-runners since 2006

A "highly advanced" country, according to the BTI's Status Index, features a stable democratic order undergoing consolidation and a high-performing market economy anchored in principles of social justice. The group of front-runners has been more or less stable since 2006, having been reduced by only two states: Croatia (2010) and Hungary (2012). Over the course of the last eight years, none of the other 11 leading countries has received an overall assessment for development that has dipped below the threshold value of 8.50 points. Even though the top 11 have, at times, swapped ranking slots, the makeup of the group – with two Asian, six European and three Latin American countries – has remained constant. Slovenia has lost 0.34 points in the current Status Index, attributable in equal measure to political (polarizing government leadership, slight regression in the rule of law and social cohesion) as well as economic reasons (difficulties in overcoming the consequences of the global financial crisis). Although this represents the third-largest drop in status of all the democracies reviewed in the BTI 2014, Slovenia has only fallen from third to sixth place in the Status Index. This illustrates the magnitude of the consolidation lead that the "highly developed" group has over the lower-ranked countries. Yet, as Hungary's massive loss in the quality of its democracy shows, these achievements are by no means irreversible. Uruguay, on the other hand, has confirmed its continual rise, from 13th (BTI 2006) to fourth (BTI 2012 and 2014), and remains the front-runner in Latin America. Its consistent first-place ranking in the quality of democracy since 2006 is now matched by continually improving economic conditions that combine macroeconomic stability with social and sustainability criteria.

Continuity pays off in Liberia

It is almost always a combination of political and economic success – whether simultaneous or building on each other – that ensures continual improvement in the Status Index over longer periods of time. In the last eight years, this was particularly true of Liberia, where resolute and continual reform policies since the election of Ellen Johnson-Sirleaf in 2006 have seen it advance in every BTI transformation measurement to date, with new gains in both political and economic terms

Divergent performances in political and economic transformation



Rankings of political and economic transformation as well as the aggregated Status Index for 129 countries. Countries with the largest discrepancy between democracy and a market economy are highlighted.

reflected in its rise from 114th in the BTI 2006 to 71st in the BTI 2014. In fact, it almost doubled its Status score of 2.79 in 2006 to 5.48 in 2014, by far the greatest rise any country has recorded in the Status Index. This rise is primarily the result of enormous progress in political transformation from a hard-line autocracy (3.18 points in democracy status of BTI 2006, 103rd place) to a defective democracy (6.45 points in BTI 2014, 53rd place). At the same, since 2006, the state of economic transformation has risen by an impressive 2.11 points (albeit from a very low level), which can be attributed largely to improvements in sustainability as well as the protection of private property.

Along with the impressive transformation performance of Liberia (+2.69 in the Status Index) and the constant improvements of Uruguay at the highest level (+0.67), in the last eight years, only Indonesia (+0.63), Laos (+0.54) and Malawi (+0.88) have made significant, continual gains in transformation. There is considerable consistency in this progress, in the case of Indonesia both in political (balance of powers and integration) as well as in economic transformation (macroeconomic stability and economic performance), while it was in market organization and the fight against poverty that Laos performed particularly well, and Malawi even more so.

But the opposite is also true: Continual drops in the Status Index over several years cannot be explained by regime changes or economic downturns alone. Indeed, consistent losses over time point instead to more comprehensive transformation difficulties deriving from both political and economic factors. This is the case at the upper level, such as with Croatia (–0.54), which, after several losses resulting from a lack of both institutional and macroeconomic stability, fell out of the leading BTI group in 2010 and has not been able to recover the loss since then. This is also the case for those in the mid-range of transformation (i.e., “limited”), such as Ukraine (–1.07), where first economic (stability and economic performance) and then also political conditions (rule of law and participation rights) have deteriorated significantly since 2006. But this is also true at the lower end of the scale, as evinced by countries such as Iran (–0.91), where political and civil rights were further reduced under former President Ahmadinejad and currency and price stability sank to record lows, as did economic strength.

However, two of the most striking examples of successive losses registered in the course of the last eight years apply to countries in which there was also a regime change: in Madagascar (–2.18), where there was a putsch, and in Venezuela (–0.95), where there was creeping autocratization despite reasonably free elections. In both cases, political and economic transformation suffered major setbacks even before an authoritarian regime was installed, which then either resulted in a coup or brought such a grave reduction in the balance of powers that there was no longer a democratic order to speak of.

Regime change figures prominently among those countries registering the largest gains and losses in the last two years. In Côte d’Ivoire (+1.22, from 121st to 95th), for example, there was a cessation in the violent confrontations that followed the 2010 elections and, although there remains much to be done in fighting poverty, rebuilding infrastructure and implementing anti-corruptions policies, there are signs of improved economic performance. After years of reform, Bhutan (+1.12) now classifies – for the first time – as a democracy in the BTI. Though it features only a modest opposition, the country’s young democratic institutions function relatively well, and the by-elections held in 2012 were sufficiently free and fair. The pro-royalist government now has an effective hold on power.

The BTI also highlighted democratic regime change in Tunisia (+0.76), Nigeria (+0.36) and Egypt (+0.32) underway at the end of the review period in January 2013. Each of these countries registered significant gains in the Status Index, despite economic stagnation (Nigeria) or massive economic downturns (Egypt, Tunisia). In the case of Thailand (+0.10), although the government won a degree of freedom from veto actors, such as the monarchy and the military, and now fulfills the minimum requirements of a democratically legitimate leadership with the effective power to govern, the fact that it was classified as a democracy failed to result in a significantly higher Status Index score.

Mali’s record fall

On the other hand, countries new to the group of autocracies recorded in some cases steep declines in their Status Index scores. The exceptions include Guinea (+0.11), whose gains in stateness and economic performance more than compensated for losses in its quality of democracy, as well as Nepal (–0.08), which lost ground in the already weak areas of stateness and electoral regime but at the same time recorded slight gains in advancing freedom of opinion, prosecuting abuses of authority as well as on macroeconomic indicators. Russia, on the other hand, which in the BTI 2014 is classified as an autocracy for the first time, recorded a loss of 0.49 in the Status Index, largely due to widespread reductions in political participation rights. The poor quality of elections in Angola means that it can also no longer be regarded as a democracy. But Angola recorded an even greater deterioration in its economic performance, particularly in terms of socioeconomic issues, resulting in an overall drop of 0.53 in the Status Index. Sri Lanka’s autocratic tendencies include the large-scale intimidation of the opposition in the electoral process as well as a concentration of power in the hands of President Rajapaksa and a continual weakening of the rule of law. Together, these developments led to a decline (–0.64) in transformation. The greatest overall drop in the Status Index was registered by Mali, which, after a putsch, civil war and economic downturn, lost a full 2.00 points. Due to its previously high rating as a model West African democracy, this decline marks a dramatic fall, far exceeding those recorded by the three other countries registering major transformation losses in the BTI 2014: Syria (–1.72), Yemen (–0.77) and Sudan (–0.75). In fact, Mali’s decline represents the greatest drop recorded to date in the BTI Status Index.

Two regional trends stand out

The broad geographical distribution of those countries registering the largest gains and losses in transformation highlights the difficulty in discerning major regional trends. In the last eight years, the fluctuations in average values for most regions were marginal. In East-Central and Southeast Europe, however, the overall Status Index score dropped by 0.10 points. This can largely be attributed to setbacks in consolidating democracies. Along with losses in the rule of law, political participation rights were decidedly more restricted in 2013 than they were in 2005, and the average regional scores (adjusted for Kosovo, Montenegro and Serbia, which were not yet under review in the BTI 2006) dropped from 9.48 to 8.88, with the greatest drop due to a reduced independence and variety of media outlets (–1.43). While two-thirds of the countries in South and East Africa recorded losses in the Status Index, due to (in some cases a severe) deterioration in stateness, participation rights and the rule of law, West and Central Africa stabilized within the same period and recorded a plus in the average regional transformation scores of 0.18 (adjusted for the later addition of the Republic of the Congo and Mauritania).

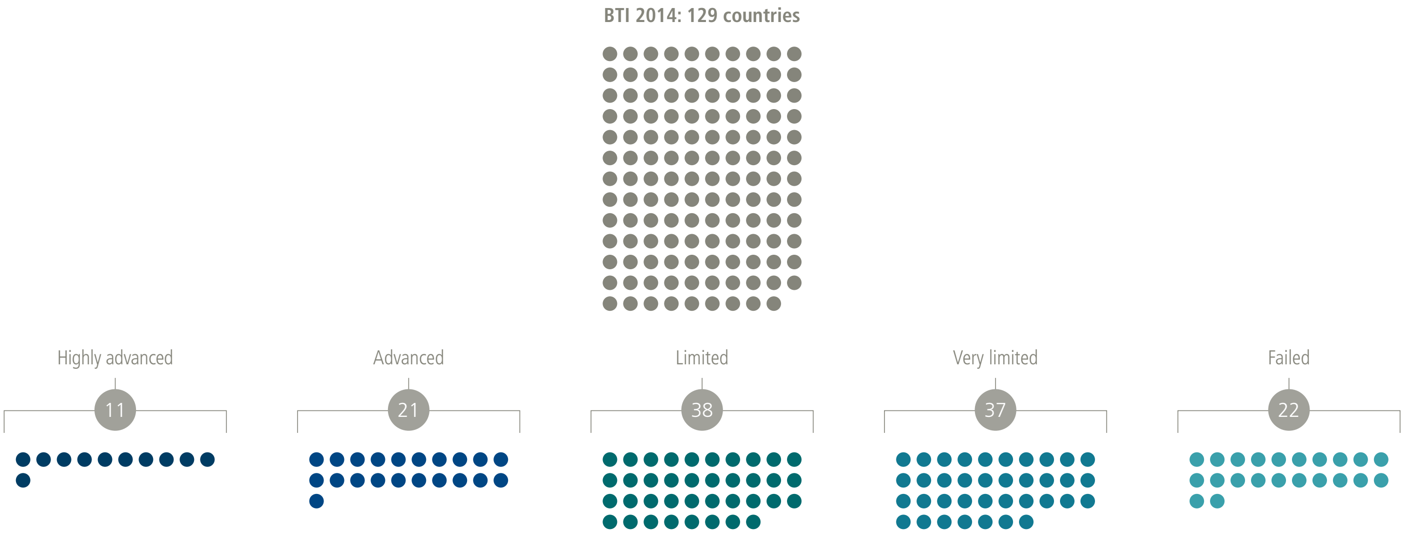
In the two-year review period for the BTI 2014, two regional trends are particularly palpable: On the one hand, there was a deterioration in transformation results for 12 of the 17 countries in East-Central and Southeast Europe, caused largely by setbacks in the quality of democracy, that is, the protection of civil rights (–0.24), performance of democratic institutions (–0.30) and balance of powers (–0.41) in particular. On the other hand, there were massive declines recorded in numerous Arab countries – Egypt, Iran, Libya, Sudan, Syria and Yemen in particular – both in terms of currency and price stability (–0.92) as well as economic strength (–0.90) and welfare regimes (–0.42). These losses led to an average regional drop of 0.40 points in economic transformation, which in turn resulted in a 0.19 point fall in the Status Index for the region.

The group of countries classified by the BTI as "highly advanced" or "advanced" in terms of economic and political development has remained largely stable, both in its size and composition. In the BTI 2006, this group included 30 of the 119 countries then under review (25.2%). In the BTI 2014, this group has grown slightly to include 31 countries, which, as a share of the total 129 countries surveyed, represents 24 percent. In the course of the last eight years, Argentina, Mexico and Thailand were each downgraded to the group of countries showing a merely "limited" successful transformation, while Ghana, Montenegro, Peru and Turkey joined the group of "advanced" countries.

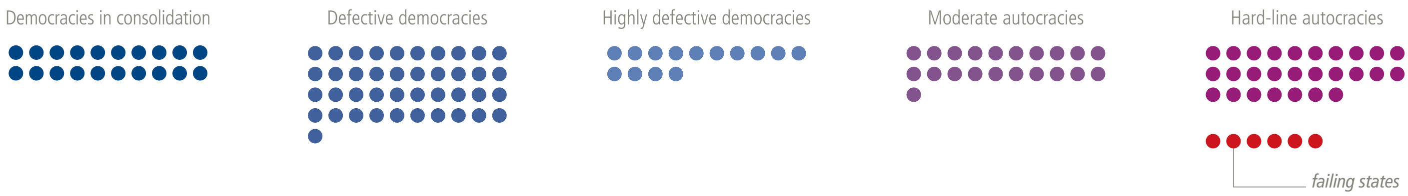
The proportion of countries with "limited" transformation results also remained stable at 29 percent of all countries under review, growing from 35 to 38 countries. Among those recording major losses were Madagascar and Mali, which fell to the bottom end of the group of countries featuring a "very limited" state of transformation, while Liberia climbed two whole categories from its former "failed" transformation status.

Overall, the group of "failing" transformation countries shrank significantly, from 21 to 17 percent of the countries under review, and now includes 22 countries. Those who rose to the transformation status of "very limited" were Angola, Burundi, Côte d'Ivoire, Cuba, Iraq, Togo and Zimbabwe, while, on the other hand, only Ethiopia and Pakistan fell to the "failing" transformation category. In parallel, the group of countries with "very limited" transformation grew significantly, from 29 to 37 countries. Thus, the middle groups of "limited" and "very limited" transformation represent the majority of all BTI countries – rising from 54 percent in BTI 2006 to the present 58 percent. In sum, though the global average may suggest that little has changed, a closer look reveals individual development efforts and achievements that have freed a whole range of countries from the misery of "failing" transformation.

Transformation status



State of transformation by category, BTI 2014



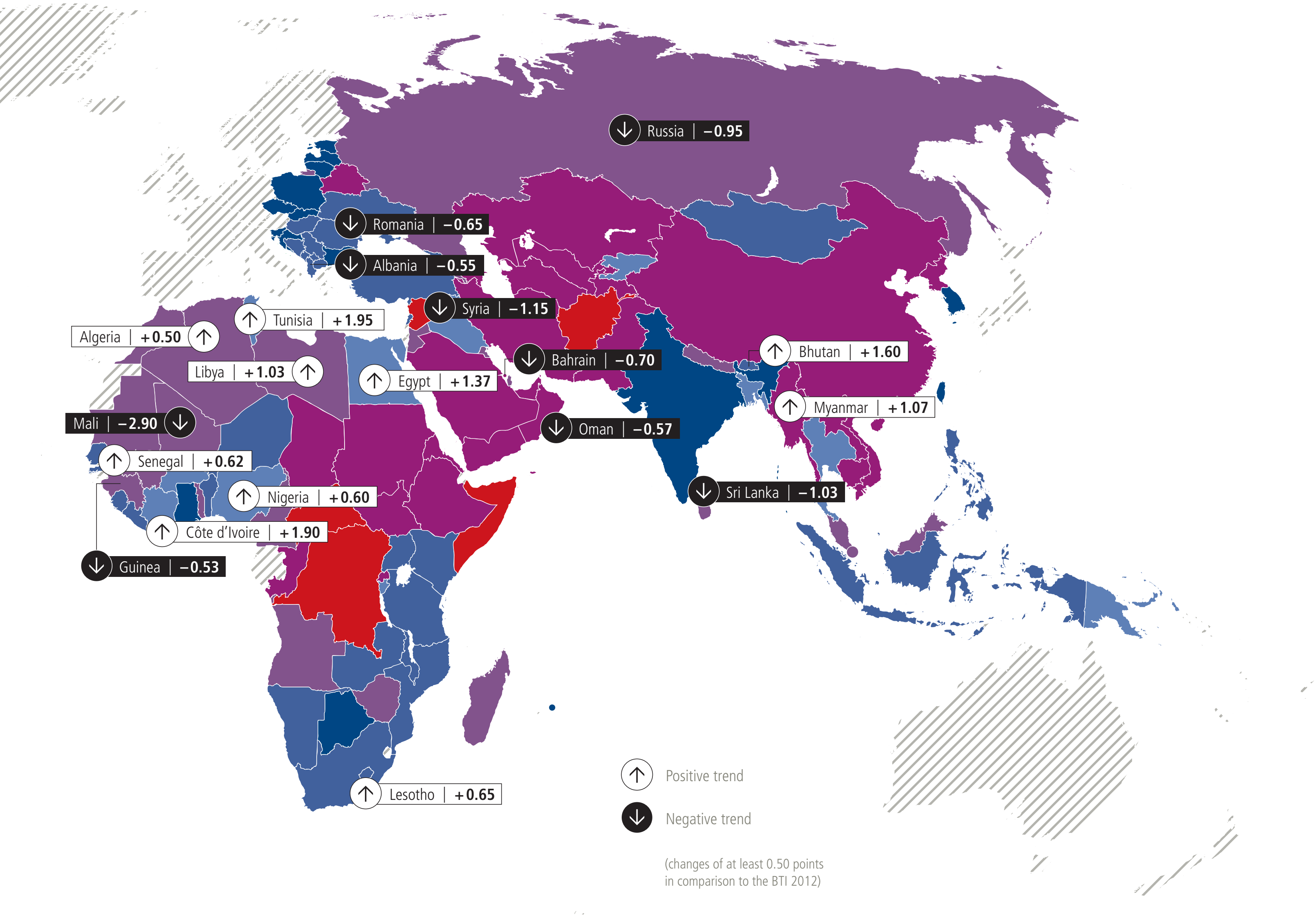
Political transformation

Trending toward the center

The BTI recorded six transitions to democracy between 2011 and the start of 2013. The fact that this includes only two North African countries – Egypt and Tunisia – shows once again how small the dividends of the Arab upheavals actually were, especially given the military coup against the democratically elected Morsi government in Egypt in June 2013. Despite remarkably free and fair elections in July 2012, Libya still counts among the autocracies because there is no guarantee of even the minimum protection of civil liberties that would be expected in a democracy. Algeria also continues to be governed by an authoritarian regime. Despite substantial liberalizing trends there, the lifting of the state of emergency and clear improvements in the quality of elections, elected politicians' effective power to govern is not sufficiently ensured in the face of the military and intelligence services.

In Bhutan and Thailand, two rising Asian countries, the situation is different. As a result of the lack of actual decision-making authority vested in each of their respective governments, both countries were classified as autocracies in the BTI 2012. In Bhutan, the highly respected monarchy has not given any cause in recent years to suppose that the king, with his power as a potential veto player, would use his formidable influence to revise or discredit the process of democratization that he himself initiated. In Thailand, on the other hand, the political leadership's effective power to govern is far more restricted. The constitution accords the king, who is officially meant to stand above party lines, a strong position, and the Privy Council is active behind the scenes of official politics. The military is another veto player that in practice does not have to bow to the will of the civil commander in chief when it comes to selecting military leaders or controlling the borders. Nonetheless, the Thai government has in the past two years won back some limited room for maneuver, making it possible to categorize the country as a democracy.

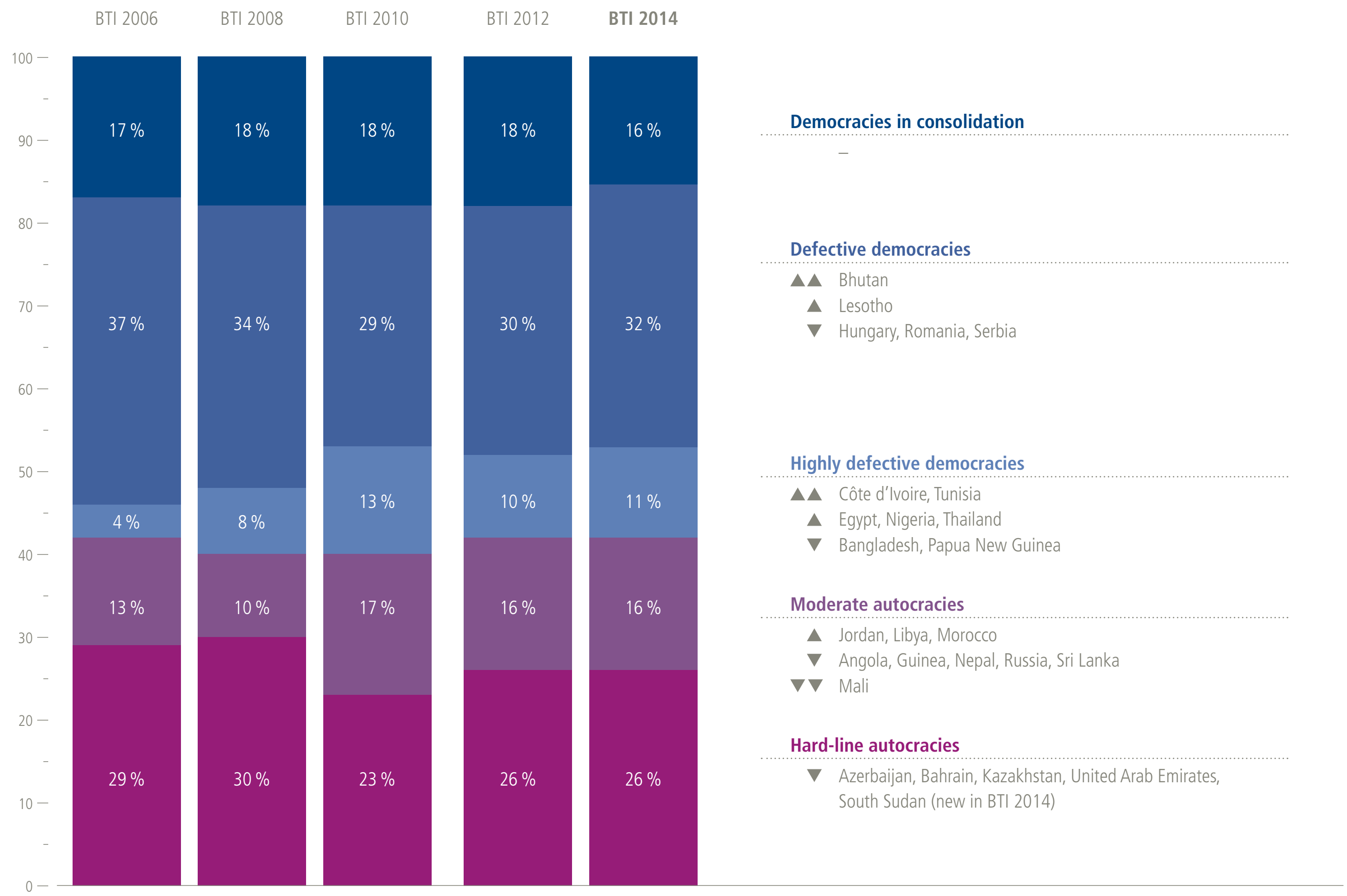
In West Africa, two countries have also joined the group of democracies. In recent years, Nigeria had been classified as an autocracy due to the 2007 elections, severely marred as they were by falsification, intimidation and violence. After the 2011 parliamentary, presidential and regional elections – the freest and fairest in the country's history to date – the state managed a successful re-democratization, despite the ongoing potential for conflict between ethnic and religious groups. In Côte d'Ivoire, the violent conflicts sparked by the presidential elections at the start of 2011 were effectively put down, and the elected government of Alassane Ouattara was able to



take office in June 2011. Like Nigeria, Côte d'Ivoire is also classified as a strongly defective democracy, and it faces the challenge of consolidating its unstable democratic institutions.

By contrast, there are six countries that now number among the autocracies in the BTI 2014. In each case, the decisive factor for the downgrade was that elections held in these countries were not considered sufficiently free and fair to justify their continued classification as democracies. And yet Angola, Guinea and Nepal had witnessed a rapid push to democratization just a few years earlier. In 2008, Angola held relatively free, if not exactly fair elections, its first since 1992. In Guinea, the 2010 presidential elections ended the military government that had been established by a coup. The peace agreement at the end of 2006 in Nepal and the election of a constituent assembly in 2008 finally put an end to years of civil war between monarchists and Maoists. However, this progress toward transformation was qualified or reversed by events in the last two or more years: In Angola, besides voting irregularities, a change was made to the constitution to preclude direct presidential elections and favor permanent rule by the MPLA; in Guinea, the parliamentary elections, planned since 2010, were once again postponed until October 2013 (after the review period) and yielded contested results; and in Nepal, the Constituent Assembly was dissolved in May 2012, leaving the country without a democratically legitimized government or a parliament. These three transformation cases are indicative of the difficulty of guaranteeing stability and estab-

Democracies and autocracies worldwide:
little changes over time, but trending toward the center



Percentages of countries in each category of political regimes, BTI 2006 – BTI 2014

Movement to a higher or lower political regime category, BTI 2012 – BTI 2014

lishing functioning democratic institutions in the wake of rapid political liberalization.

By contrast, in Sri Lanka and Russia, the classification downgrade is the result of continuing trends toward autocracy. The BTI has been recording political regression in Russia since 2006, albeit with a slight thaw under President Medvedev. For Sri Lanka, the political rollback has been gaining traction, particularly since the military victory over the Tamil separatists in early 2009, in part due to a concentration of power in the executive and growing Sinhalese nationalist tendencies.

Unlike these five autocracies, which were all categorized as strongly defective democracies in the 2012 BTI, Mali, the other "new" member among the group of autocracies, was previously considered to have only slight democratic deficits. With a drop of 2.90 points in the state of democracy, the West African country has fallen from 35th place – between Argentina and Mexico – to 90th – trailing even Russia and Venezuela – after the violent overthrow of its government, the military conflicts with the Islamists and Tuareg, and overall failings in conflict management.

With South Sudan added as an autocracy to the BTI's sample of countries, the balance between democracies and autocracies has once again shifted slightly toward the autocratic end of the scale. There are now 54 (previously 53) autocracies compared to 75 democratically governed countries. The ratio of 58 percent democracies to 42 percent autocracies is almost identical to that of the BTI 2006, when the sample of countries consisted of 50 autocracies and 69 democracies.

Almost two-thirds of all autocracies are classified as "hard-line" regimes, while more than a third are considered "moderate," generally with significantly better protection of civil liberties, such as freedom of assembly and expression, as well as better representation of parties and interest groups, albeit within an authoritarian framework. This latter group includes 10 countries with stronger stateness (e.g., Armenia and Malaysia), states with relatively few restrictions on participation rights (e.g., Libya and Nepal), and countries with higher standards for the rule of law (e.g., Kuwait and Singapore). Among the autocracies, the group of "moderates" has grown in recent years, from a low of 26 percent in the BTI 2008 to 39 percent in the BTI 2014.

By contrast, the trend in the democratic camp, which has continued to number 75 countries since the BTI 2008, has been negative. Here, the proportion of democracies in the process of consolidation has fallen from 23 to 20 countries after democratic deficits increased in Hungary, Romania and

Serbia. In the case of Serbia, a slight decrease of 0.10 points in the democratic balance tipped the scales, and the country was downgraded to the group of 41 defective democracies. Whereas Serbia remained more or less level, with improvements in the prosecution of abuse of office balanced out by setbacks in freedom of expression and commitment to democratic institutions, in the case of Romania, there was a clear drop in the quality of democracy (– 0.65) and, in Hungary, the erosion of democratic standards observed in the BTI 2012 (– 0.90) was confirmed again (– 0.40). In Romania, the government disempowered both the parliament and the Constitutional Court in order to depose President Traian Băsescu. In Hungary, the conservative-dominated parliament adopted so-called "cardinal laws" in 50 policy areas that can only be changed by a two-thirds majority and that represent an attempt to cement political preferences beyond the legislative period. In both cases, governments disregarded the principles of the rule of law and abused their parliamentary majorities to circumvent constitutional procedures and checks.

Overall, there is a clear trend in the field of political transformation: The unambiguously positive cases of continuously consolidating democracies are becoming as infrequent as the unambiguously negative cases of failing states or hard autocracies with no or failed attempts at transformation. With more moderate trends in the authoritarian states and more political defects in the democratic countries, the trend is toward the center.

Ambiguity in stateness

In the BTI 2014, there are fewer cases of "failed" political transformation. This appears to correspond superficially to the current assessment of stateness. Despite recent slight losses of stateness in all areas (from the state's monopoly on the use of force, through state identity and the influence of religious dogmas, to the underlying administrative structures), the number of countries with fragile stateness has fallen to 24, making up just under a fifth of all the states examined in the BTI, compared to more than a quarter eight years ago. Furthermore, the recent losses of stateness can mainly be assigned to one region, the Middle East and Northern Africa, where five of the seven largest falls were recorded in Bahrain, Egypt, Libya, Syria and Yemen. And, finally, the current decline in the global average scores for stateness should be seen from the perspective of long-term trends in the last eight years, with the state's monopoly on the use of force and the underlying administrative structures, in particular, continuing to improve.

But this would paint an overly optimistic picture of the latest developments. Besides the positive outlier Côte d'Ivoire, which posted clear stateness gains of 2.3 points after the end of its civil war, no fewer than 28 other countries improved in the last two years: 22 of these somewhat marginally (+ 0.3), and six considerably (+ 0.5). However, these are offset by 47 countries that suffered losses of stateness in the same timespan: 30 with marginal deterioration, 10 with clear deficits and seven with dramatic losses of an entire point or more – the five Arab countries mentioned above plus Mali (– 2.8) and the Central African Republic (– 1.3). The BTI lists six countries that are considered failing states due to an insufficient monopoly on the use of force and underdeveloped administrative structures: The countries on the list in the BTI 2012 – Afghanistan, the Democratic Republic of the Congo, Haiti, Somalia and the Central African Republic – are now joined by Syria, wracked by civil war.

The smallest losses in stateness worldwide for this edition of the BTI can be seen in the area of administrative structures. Libya and Syria experienced the greatest setbacks here, due to the destruction of infrastructure and a lack of central coordination. As in the overall assessment of stateness, the greatest changes in the areas of administrative structures and basic services can be seen in the Arab and African regions. West and Central African countries make up five of the 12 top gainers, improving from a low level; while, inversely, 11 East African and Arab states are represented among the 15 countries registering the largest losses. The state's monopoly on the use of force has worsened more markedly than the administrative structures, and most of the countries affected are once again Arab and African (17 out of 21).

In the long-term trend, however, basic functions that are central to the state, such as security and administration, have improved in far more countries than they have worsened. The substantial improvements to stability in post-Soviet Eurasia and Asia are worthy of particular mention, with more than half of governments (17 out of 33) able to consolidate their monopoly on the use of force. This consolidation can either represent an improvement in the framework conditions for democratization, as in the case of Moldova, or, as in Sri Lanka, it can bring about a shift toward autocracy.

Disturbances to core issues of stateness, such as the ability of the central government to provide basic services and administrative structures, are almost always tied to a decline in identification with the fabric of the state. Substantial sections of the population then tend to challenge the legitimacy of a state that is not able to protect and provide; or, inversely, when people fail to identify with the state, they may question its monopoly on the use of force. This applies to Yemen (state identity indicator – 2 compared to BTI 2012), where tribal, regional and religious identities compete against identification with the central state, and to Mali (– 4), where the Arab population, Moors and Tuareg have not been sufficiently integrated, and to the Central African Republic (– 2), where the complete failure of the state to maintain law and order has left citizens with no other choice than to organize themselves.

The rising influence of religious dogmas

The clearest change, from both a short- and a long-term perspective, is the rising influence of religious dogmas on the inner structuring of political systems. This BTI indicator is not concerned with questioning the involvement of churches and religious institutions as interest groups in political decision-making processes per se. Instead, it is

Influence of religious dogmas on legal order and political institutions on the rise

Score decrease BTI 2006 – BTI 2014

No interference of religious dogmas score in BTI 2014

East-Central and Southeast Europe

●	9	Hungary
●	8	Macedonia

Post-Soviet Eurasia

●	9	Kazakhstan
●	9	Ukraine

Asia and Oceania

●	7	Bangladesh
●	7	Philippines
●	6	Indonesia
●	6	Malaysia
●	6	Thailand

Latin America and the Caribbean

●	9	Brazil
●	9	Colombia
●	9	Dominican Republic
●	9	Jamaica

Middle East and North Africa

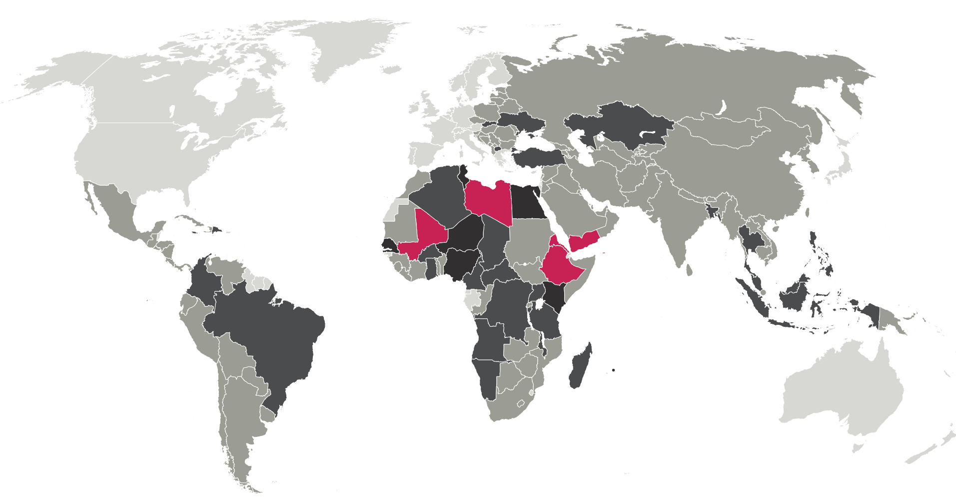
●●●	4	Libya
●●●	3	Yemen
●●	6	Tunisia
●●	4	Egypt
●	7	Turkey
●	6	Algeria

West and Central Africa

●●●	5	Mali
●●	7	Senegal
●●	5	Niger
●●	4	Nigeria
●	8	Burkina Faso
●	8	Cameroon
●	8	Central African Republic
●	8	Chad
●	8	DR Congo
●	8	Ghana

South and East Africa

●●●	7	Eritrea
●●●	7	Ethiopia
●●	8	Burundi
●●	8	Kenya
●●	8	Mauritius
●	9	Angola
●	9	Namibia
●	8	Madagascar
●	8	Malawi
●	8	Tanzania
●	8	Uganda



All countries with a score decrease of at least 1 point in comparison to the BTI 2012

concerned with the restrictions on individual beliefs and choices when the legal system and political institutions are subject to the direct influence of religious dogmas. In a predictable fashion, the influence of Islamism has increased in a total of eight Arab countries over the past two years, especially in Egypt and Libya. However, a stronger religious tone has also emerged in politics in sub-Saharan regions, including in West African states that have traditionally been organized along secular lines, such as Burkina Faso, Cameroon, Nigeria and, of course, Mali. This is more clearly evident in long-term trends: In the past eight years, the influence of religious dogmas has increased in 25 of the 40 African states examined in the BTI 2006 – in four of the six North African States, in 10 of the 16 countries of West and Central Africa, and in 11 of the 18 South and East African states. Marked regional focuses can be identified here, such as the greater East African area covering Eritrea, Ethiopia, Kenya, Tanzania and Uganda, where Christian churches (in most cases) are gaining stronger influence over politics although the state continues to feature a largely secular composition, or the Muslim-influenced West African belt from Senegal, through Mali and Niger to Nigeria, where increasing militancy can be observed in Islamist groups and where religious and secular forces are in conflict to a greater (Mali) or lesser (Senegal) degree over the general orientation of the legal system and public institutions. Outside Africa, by contrast, only Yemen shows a clear increase in the influence of religious dogmas.

Civil and political rights more strongly restricted worldwide

The BTI 2014 confirms a problematic trend that first became apparent two years ago and has since intensified in numerous countries: Civil rights and opportunities for political participation are becoming increasingly restricted in many democracies. In the Latin American and East-Central and Southeast European democracies primarily, the trend towards a declining quality of elections continues unabated. In the Dominican Republic, Ecuador and Panama, as well as in Albania, Bulgaria and Romania, reductions in the quality of the electoral process went hand in hand with an erosion of the separation of powers. Now, of the 35 democracies in these two regions, only a minority of 16 have managed to at least maintain their standard of voting procedures in the past eight years or, in the case of Chile, Estonia and Latvia, to even improve the fairness of elections. In the other 19 democracies, deficits grew to varying degrees. In Argentina, Croatia and Lithuania, there were minor complaints regarding the conduct of elections that were, overall, free and fair. In Bulgaria, Panama and Romania, attempts to exert influence over new electoral laws and manipulate electoral lists in order to promote incumbents drew criticism. In Ecuador, Guatemala and Mexico, by contrast, there have been massive deficits in the quality of elections for several years. Most of the steps taken backward here were witnessed during the period under review for the BTI 2014 (in nine cases) or the two previous years (in seven cases).

The average quality of elections in all the democratically governed countries has fallen continuously, from 8.51 in the BTI 2006 to 7.92 in the BTI 2014. Over this period, numerous democratically elected governments also placed severe restrictions on freedom of association and assembly, curtailed freedom of expression and the press, and infringed more strongly on personal liberties.

Arbitrary exertion of state power due to insufficient protection of physical integrity and a lack of equality before the law has increased since the BTI 2006 by an average of 0.36 points. This can be traced back either to regression from a comparatively high level (such as more frequent delays to lawsuits or increasing discrimination against Roma in some countries of East-Central and Southeast Europe) or to repressive measures against members of the opposition or minorities in unconsolidated, highly defective democracies, such as Burundi, Papua New Guinea and Thailand. These latter phenomena are often linked to restrictions in the freedom of assembly and association, as for example in Bangladesh, where trade unionists are intimidated and abducted, or in Zambia, where the government relies on police power and a controversial Public Order Act to prevent unwanted demonstrations.

Nevertheless, the considerable losses in the field of civil rights (averaging – 0.23 across all the countries investigated since the BTI 2006) are not only to be found in the democracies. Of the 39 countries that have worsened in the past eight years, 21 were governed autocratically. At present, further setbacks are coming to the fore in fragile or failing states, such as Libya, Mali, Syria and Yemen, in particular, where the governments would not be in a position to protect civil liberties even if there were the political will to do so. Generally, it is striking that, of the 15 countries that have worsened considerably in this regard in recent years (by two or more points), none is to be found in the top 50 places of the Status Index.

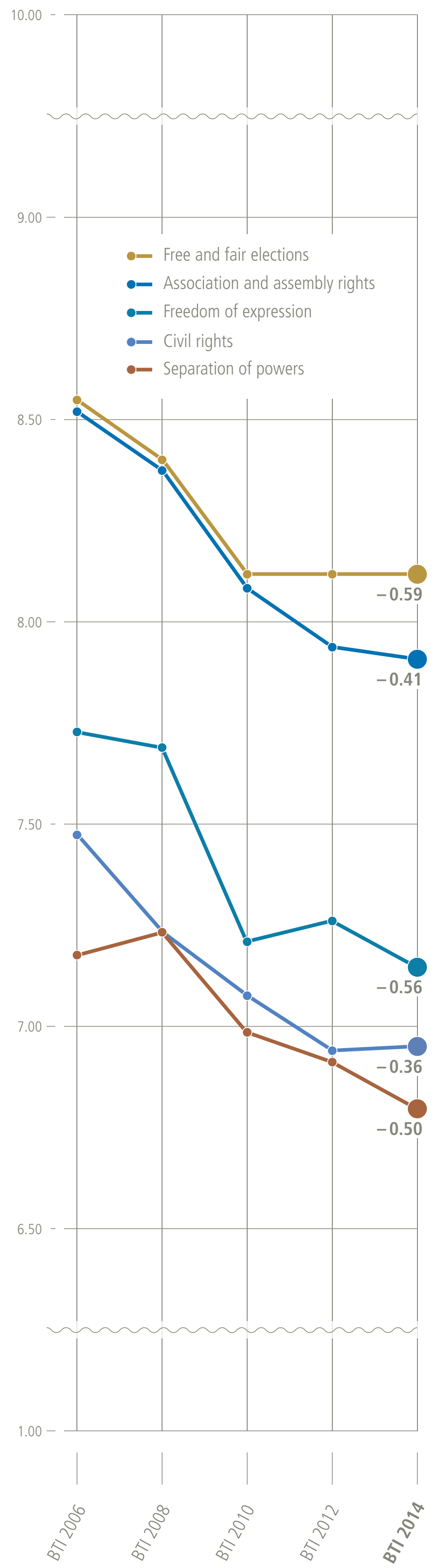
This also applies to states in which freedom of association and assembly have been subject to heavy restrictions in the past eight years: Again, of the 19 countries recording the largest losses, two-thirds were ranked no higher than 90th in the Status Index. Although this includes countries, such as Madagascar and Mali, that underwent a change of political system and experienced falls from a relatively high level, in most cases, such as Cambodia, Eritrea, Ethiopia and Iran, states that already had a poor rating were downgraded even further. Another phenomenon that appears to fit in with this pattern is the fact that those democracies scoring below their BTI 2012 scores also feature an overall lower level of political development – and this applies across all regions, from Albania and Bangladesh to Guatemala, Iraq and Zambia.

Although the BTI has been recording a continuous increase in restrictions on freedom of expression worldwide since 2008, the score remained stable compared to the BTI 2012 (not including South Sudan). The check on this downward trend is primarily due to countries with pronounced advances in transformation, such as Libya (+6 for the freedom of expression indicator), Myanmar (+4) and Tunisia (+3), as well as Egypt, Côte d'Ivoire and Lesotho (+2 each). In established democracies, by contrast, the trend continues to be negative. Once again, this is especially true for East-Central and Southeast Europe, where the media continue to face increasing pressure from governments and economic interests and the regional average for freedom of expression fell dramatically, from 9.27 (BTI 2006) to 7.82 (BTI 2012) to the current 7.59. The overall decrease of 1.68 in East-Central and Southeast Europe represents the greatest setback ever recorded in the BTI in the area of political transformation for any indicator value as a regional average.

From self-censorship to persecution: the media and the mighty

In Bulgaria and Romania, quality journalism is declining in the face of payola journalism, as the political connections and ambitions of media owners compel their journalists to exercise self-censorship. This trend is aggravated by the depletion of the media sector that has come about as a result of the economic crisis. In Hungary, although the parliamentary majority amended its controversial media law in the face of massive international protests and an objection from the Constitutional Court, the newly created media supervisory body dominated by supporters of the Fidesz party continues to have far-reaching powers at its disposal to intervene and sanction. Media and information diversity in Hungary also continues to shrink: The state broadcasting service has been obliged to use the state-owned news agency as its sole source of news, and the media supervisory body refuses to assign a frequency to the last remaining opposition radio station despite multiple court orders in the station's favor. In Serbia and, to a greater extent, in Macedonia, direct governmental influence of the media is on the rise. In both countries, the economic position of media outlets that are favorable to the government is improved by means of selective placing of state advertising. While in Macedonia, three opposition newspapers were closed due to alleged tax offenses, and a television station that was critical of the gov-

Civil and political rights increasingly restricted in democracies



Average criteria scores of all democratically ruled countries according to the BTI 2014

ernment was bought up by a group of buyers with links to the government. The incessant attempts by state and economic actors to exert influence, which in Southeastern European countries has often led to attempted intimidation and physical assaults on critical journalists, illustrate the prominent role played by the media in polarized and volatile contexts where the political discourse's susceptibility to populism is further intensified by superficial or biased reporting by pliable or corrupt journalists.

A common denominator of this kind is not evident in Asia, where the spectrum is too wide, ranging from an established democracy such as India, where journalists tend to practice self-censorship on matters of foreign policy, through to a strongly defective democracy such as Thailand, which exercises strict controls and censorship of television and radio programs and relentlessly sanctions negative comments on the royal dynasty. However, it is remarkable that, apart from those countries marking considerable gains in political transformation, such as Bhutan and the Philippines, six other democracies registered backward steps in terms of freedom of expression. Some did so from a high level, such as Taiwan and Papua New Guinea, where a concentration of media has had a negative impact on the diversity of opinion. Some did so from a lower level, such as Bangladesh and Indonesia, where assaults, abductions and intimidation of independent journalists are becoming more frequent. The same applies to the "traditional" democracies of the Middle East – Iraq, Lebanon and Turkey – where content that is "offensive" (Lebanon), "insulting to the Turkish nation" or "harmful to the nation's prestige" (Iraq) is censored or punished. Iraq, in particular, is considered to be a "high-risk, hostile environment for journalists."

Deficits in the rule of law weaken political participation

The simultaneous combination of an assault on civil and political rights and a weakening of the separation of powers due to the concentration of power in the executive is no longer as clearly evident as it was in the BTI 2012, particularly for East-Central and Southeast Europe and Latin America. Nevertheless, on the issue of the rule of law, there has been no reversal of this trend in the two regions: The separation of powers and the independence of the judiciary remained at or below 2012's low levels (only Colombia and Peru provide exceptions here). In addition, in some cases, further erosion of the checks and balances was identified, particularly in East-Central and Southeast Europe. In addition to a relative strengthening of the executive in Latvia and a dispute over the independence of the judiciary in Bulgaria, the effective separation of powers suffered new setbacks in Hungary due to the concentration of powers in an executive supported by a strong parliamentary majority, with even more drastic setbacks in Albania and Romania. In Romania, the parliamentary majority repeatedly ignored rulings issued by the National Integrity Agency and the Supreme Court and, in Albania, the country report talks of a "state capture by the ruling elite."

A longer timeline comparison highlights this problematic trend: While the separation of powers in all East-Central and Southeast European countries apart from Albania was still considered fully realized or only minimally restricted (8 to 10 points) in the BTI 2008, this can no longer be said of six of the 18 countries (Albania, Hungary, Kosovo, Macedonia, Montenegro and Romania). These setbacks are being accelerated by populist forces that question in an increasingly aggressive manner the functional effectiveness and economic performance of the current system, with its established elites and democratic institutions. They point to the continuing wealth gap between their own countries and those of Western Europe and the harsh social impact of budget consolidation. Glaring cases of abuse of office and corruption exacerbate the loss of trust in democratic institutions. In interplay with the weak social grounding of existing parties, this facilitates the rapid rise of populist movements and parties.

Aspirations to power, combined with a disrespect for democratic processes among populist heads of government, further erode standards for the rule of law already weakened by informal deals, clientelist politics and corruption. This, in turn, undermines political participation rights. In total, 59 of the 75 democracies worldwide saw setbacks in the quality of their democracy in the past eight years – with some of these declines being minor, but many serious. In the frequently observed case of a strong executive eroding the separation of powers, governments are far more likely and able to curtail the independence of election commissions, to manipulate the regulation and holding of ballots in their own favor, to restrict rights of association and assembly, or to exert influence on public and private media – as evidenced by the worldwide reduction in participation opportunities.

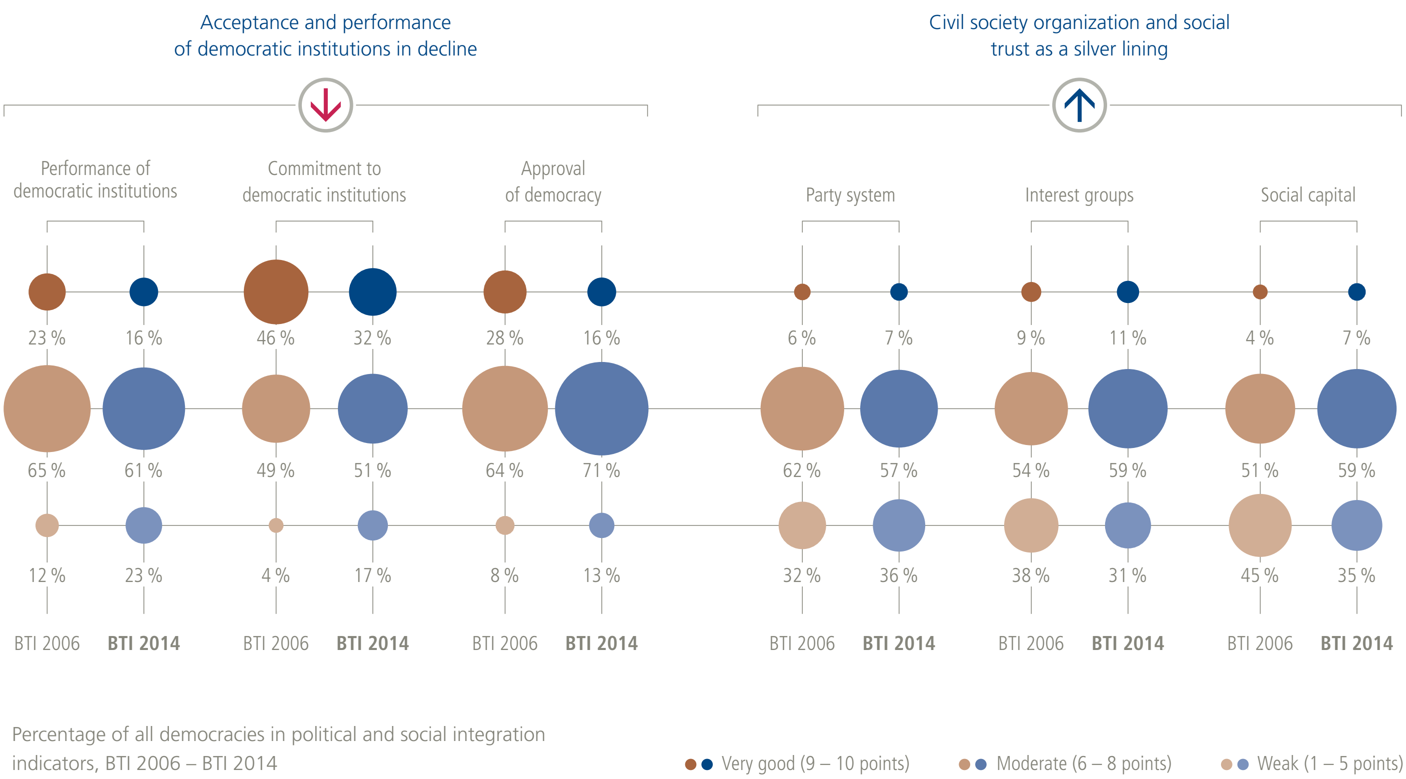
The fact that, once again, it is mainly the most advanced regions, such as East-Central and Southeast Europe, Latin America and parts of Africa, that are seeing political and civil rights restricted more severely dampens hopes for lasting democratization and a consolidation of the gains in freedom. These countries in Africa, Europe and Latin America represent 58 out of the 75 democracies, making up the greater part of the countries in which free elections are held and essential basic rights are guaranteed. In four-fifths of these 58 countries, however, the protection of fundamental personal and participation rights has declined in the past eight years, and in 28 countries, this trend has intensified in the past two. In parallel, the scores for the performance and acceptance of democratic institutions and the scores for approval of democracy also fell in these regions. Of the 16 countries in which commitment to democratic standards and processes fell in the past two years, eight were in East-Central and Southeast Europe, four in Central America and four in the neighboring Southeast African countries of Botswana, Malawi, Tanzania and Zambia.

Civil society and self-organization as the silver lining

The criterion of political and social integration is relevant in this context. Under this rubric, the BTI investigates the extent to which each country's political culture promotes democratic processes as measured by approval of democratic standards and values and the building of social capital – in other words, the degree of solidarity and trust within the population and civil society's ability to organize itself. In addition, the BTI records the extent to which the population's concerns are represented politically by parties and interest groups. An overview of these factors over the past eight years shows a moderately positive trend, most clearly evident in a long-term view of West and Central Africa (+0.20) and, in the past two years, in the Middle East and Northern Africa (+0.16) and in Asia (+0.25). Compared to the BTI 2006, five countries stand out for their distinct strengthening of political and social integration, although all five admittedly started from a very low level: Angola (+2.33 points), Burundi (+2.08), Myanmar (+2,00) and two countries that were already highlighted in the BTI 2012, Liberia (+2.33) and Togo (+2.67).

Some progress can be seen in the stability and social anchoring of party systems as well as the representative and mediation capacities of interest groups. In the past

Ambiguous trends in consolidating democracies



Percentage of all democracies in political and social integration indicators, BTI 2006 – BTI 2014 eight years, the quality of party systems increased in a solid one-third of Asian countries (+0.28). The same is true for East-Central and Southeast Europe (+0.25), despite the recent setbacks observed. In the past two years, the quality of party systems improved noticeably – albeit from a low level – in the Middle East and Northern Africa (+0.32), above all in Libya and Tunisia, thanks to the liberalizing impulse of the Arab Spring.

The ability of interest groups to mediate between civil society and the political system in a balanced and cooperative manner saw the greatest improvement of all the integration indicators, with a global increase of 0.30. The quality of mediation between civil society and political decision-makers improved in almost every region over the past eight years. The only exceptions to this were identified in South and East Africa, despite recent positive trends to the contrary in Kenya, Madagascar, Namibia and Uganda, which merely offset previous losses. Asia saw the most positive developments, both from a long-term perspective (+0.57) and in comparison with the BTI 2012 (+0.38). In countries such as Afghanistan, Myanmar and Vietnam, a slow process of self-organization and a greater acceptance by the state can be observed, while in Malaysia and Singapore, NGOs have greater political leeway. In Nepal, the numerous active NGOs have become more organized; in the Philippines, cooperation between civil society and the government has improved; and in India, the number of NGOs grew to more than three million, with new social movements fulfilling important watchdog functions.

One key factor for social cohesion is the degree of interpersonal trust and solidarity combined with the willingness and ability of the population to organize in civil society associations. In the Arab countries riven by civil war – Bahrain, Syria and Yemen – this score dropped as dramatically (–2 points) as it did in the strongly polarized societies of Oman and Turkey. And yet, conversely, trust and civil society's ability to organize improved in seven countries in the Middle East and Northern Africa, not least in Libya and Tunisia after their recent upheavals. However, it was once again Asia that saw the greatest gains (+0.24) compared to the BTI 2012. Trust scores and cooperation abilities improved in six Asian countries, either from a high level as in Taiwan or, more often, from a low level (China, Malaysia, Singapore) or a rudimentary one (Laos, Myanmar).

All in all, the current Transformation Index does not feature much in the way of encouraging political trends, and the Arab upheavals have not had any significant positive impact on the status of democracy worldwide. More often than not, gains in participation were followed by losses of stability, and political liberalization frequently went hand in hand with an increase in the influence of religious dogmas. One particularly worrisome development is the continuing erosion of the rule of law in the regions with the most advanced democracies, which has weighed heavily upon participation rights. Above all, the ongoing decline in the quality of elections in East-Central and Southeast Europe and in Latin America, as well as the dramatic increase in restrictions on freedom of the press and diversity of opinions in many Asian and Southeast European democracies, in particular, give cause for concern.

Even if consent to established democratic institutions and processes is falling in the face of a concentration of power and ineffective separation of powers or abuse of office and corruption, there is still some hope in the fact that this does not result in civil society turning its back on political participation, no matter how reduced the scope for action may be in some cases. On the contrary, the BTI 2014 documents an increase in the ability of parties and interest groups to articulate the concerns of citizens. However, this cannot be taken as a global trend. In the final analysis, there are 23 countries in which the party systems have become somewhat more stable and more rooted in society, and 23 countries in which interest groups convey social and political concerns better and act slightly more cooperatively. Nevertheless, in almost a sixth of the countries in the BTI sample, mediation between civil society, parliaments and governments now functions more effectively. In total, advances in political and social integration can be seen in 48 countries. This is not enough to declare a political awakening "from below," especially in view of the fact that, in 33 countries (two-thirds of which are democracies), integration capability worsened over the same period. But given the glaring curtailment of civil and political rights "from above," the ability of civil society to continue to make its case heard through parties and interest groups represents a democratic light at the end of the tunnel.

Political transformation, BTI 2014

Democracies in consolidation
Score 10 to 8

20

Uruguay	9.95
Estonia	9.70
Taiwan	9.65
Czech Republic	9.60
Poland	9.35
Costa Rica	9.30
Slovenia	9.30
Lithuania	9.25
Chile	9.10
Slovakia	9.05
Latvia	8.75
South Korea	8.60
Mauritius	8.55
Croatia	8.45
Botswana	8.35
Bulgaria	8.35
Ghana	8.30
Jamaica	8.30
Brazil	8.15
India	8.10

Defective democracies
Score < 8 to 6

41

Hungary ▼	7.95
Serbia ▼	7.95
Montenegro	7.90
Romania ▼	7.90
Namibia	7.75
Argentina	7.55
Benin	7.55
Turkey	7.55
El Salvador	7.50
South Africa	7.50
Panama	7.35
Dominican Republic	7.20
Macedonia	7.20
Moldova	7.15
Mongolia	7.15
Senegal	7.12
Bolivia	7.10
Indonesia	7.05
Uganda	6.90
Mexico	6.80
Philippines	6.80
Peru	6.75
Albania	6.70
Honduras	6.65
Malawi	6.65
Kosovo	6.60
Niger	6.60
Sierra Leone	6.57
Colombia	6.55
Kenya	6.55
Paraguay	6.55
Georgia	6.50
Liberia	6.45
Bhutan ▲▲	6.40
Zambia	6.40
Bosnia a. Herzegovina	6.35
Lesotho ▲	6.25
Mozambique	6.10
Ukraine	6.10
Tanzania	6.05
Lebanon	6.00

Highly defective democracies
Score < 6

14

Bangladesh ▼	5.95
Papua New Guinea ▼	5.95
Burkina Faso	5.80
Kyrgyzstan	5.80
Tunisia ▲▲	5.80
Ecuador	5.70
Nicaragua	5.60
Egypt ▲	5.45
Nigeria ▲	5.40
Burundi	5.25
Guatemala	5.20
Thailand ▲	5.05
Côte d'Ivoire ▲▲	4.88
Iraq	4.10

Moderate autocracies
Score > 4

21

Singapore	5.55
Armenia	5.35
Malaysia	5.23
Guinea ▼	5.10
Togo	4.85
Algeria	4.80
Kuwait	4.70
Nepal ▼	4.63
Sri Lanka ▼	4.57
Angola ▼	4.55
Venezuela	4.52
Mauritania	4.40
Russia ▼	4.40
Zimbabwe	4.38
Madagascar	4.37
Mali ▼▼	4.25
Libya ▲	4.13
Jordan ▲	4.10
Cameroon	4.08
Morocco ▲	4.00
Qatar	4.00

Hard-line autocracies
Score < 4

33

Rwanda	3.95
United Arab Emirates ▼	3.95
Belarus	3.93
Azerbaijan ▼	3.92
Haiti ●	3.92
Kazakhstan ▼	3.85
Cambodia	3.77
South Sudan	3.73
Rep. Congo	3.67
Bahrain ▼	3.65
Cuba	3.62
Tajikistan	3.60
Vietnam	3.57
Pakistan	3.53
Chad	3.45
Ethiopia	3.37
China	3.33
Centr. African Rep. ●	3.32
Oman	3.32
Yemen	3.27
DR Congo ●	3.25
Iran	3.13
Myanmar	3.00
Afghanistan ●	2.97
Laos	2.95
Uzbekistan	2.85
Turkmenistan	2.78
Saudi Arabia	2.73
North Korea	2.60
Sudan	2.45
Eritrea	2.08
Syria ●	2.03
Somalia ●	1.42

▲ Movement to a higher category (each arrow denotes a single category)
▼ Movement to a lower category (each arrow denotes a single category)
● *failing states*

Economic transformation

No sustainable quick wins

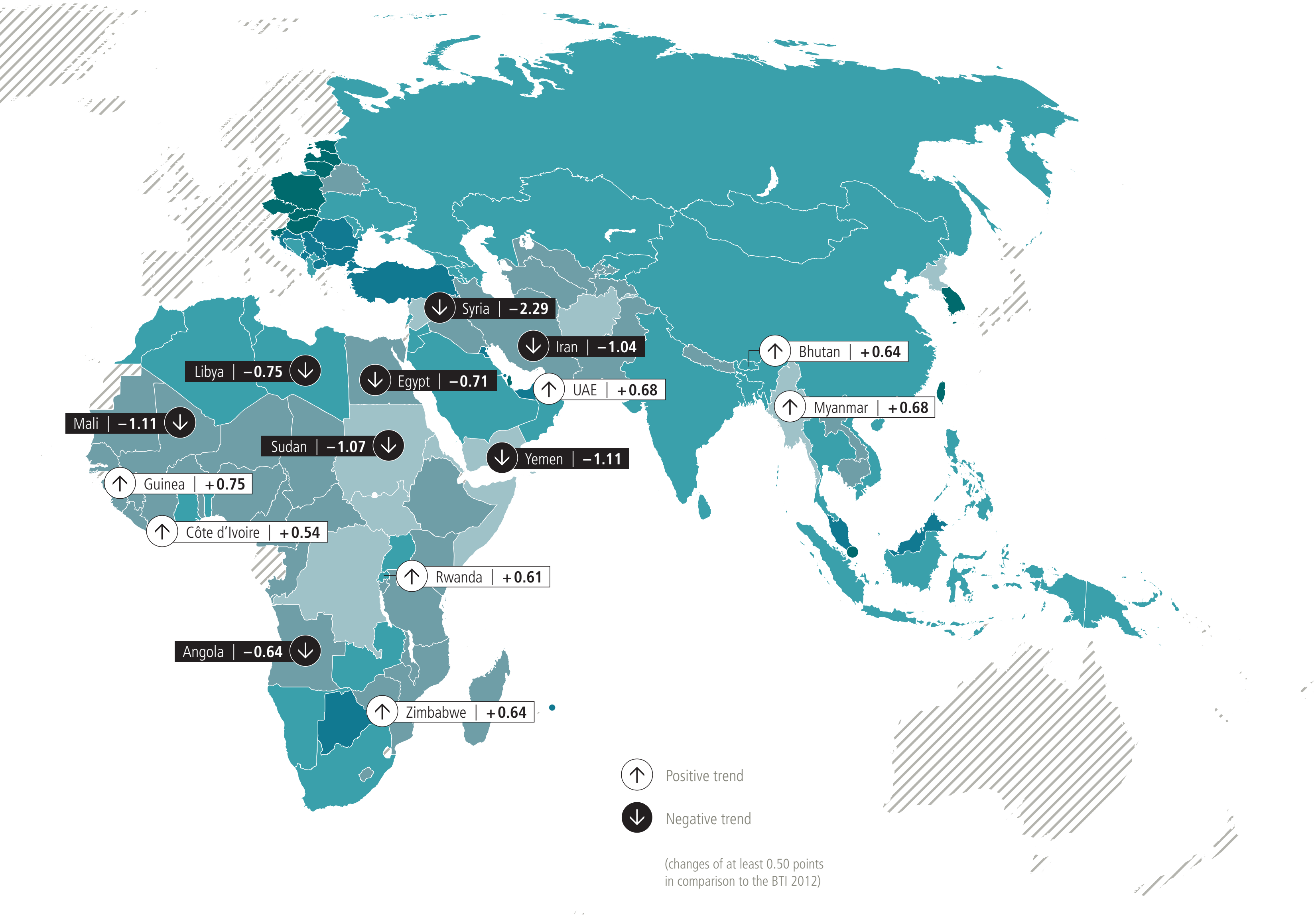
More socially oriented, with a greater contribution from free enterprise and improved sustainability: An examination of economic transformation between January 2011 and January 2013 reveals many individual examples of progress. In the former Soviet republics of Belarus, Ukraine and Uzbekistan, for instance, poverty and inequality have fallen. Four countries in the East African Rift (Burundi, Malawi, Mozambique, Uganda) have created new incentives for private enterprise. A number of Asian countries have made strides in sustainability in just two years, both in environmental policy (Myanmar, the Philippines, Taiwan) and in education (Afghanistan, Bhutan, Laos, Malaysia).

But these isolated improvements don't add up to an overall positive outcome. Modest progress in (Eur-)Asia and sub-Saharan Africa is offset by cases of dramatic economic and social regression in the Arab world, which has been convulsed by popular uprisings and civil war, as well as the economic problems confronting the more developed regions of Europe and Latin America. Consequently, the overall average for economic transformation has dropped slightly (– 0.05 points).

The most significant shifts in the last two years took place mainly in countries that are still in the early stages of transformation. Of the 15 countries exhibiting striking trends in ongoing BTI studies, 13 are regarded as socioeconomically underdeveloped or have been classified by the World Bank as either low-income countries or lower-middle-income countries. Among the seven countries that made significant progress, there is one functioning market economy (United Arab Emirates), two market economies with functional flaws (Bhutan, Rwanda), three poorly functioning market economies (Côte d'Ivoire, Guinea, Zimbabwe) and one rudimentary market economy (Myanmar). The eight countries that have significantly deteriorated – all of them to be found in the Middle East or on the African continent – break down into one market economy with functional flaws (Libya), four poorly functioning market economies (Angola, Egypt, Iran, Mali) and three rudimentary market economies (Sudan, Syria, Yemen). At higher levels of development, change tends to be more modest in scope but of longer duration.

Booming resource exporters

It is worth taking a closer look at the seven countries that improved significantly in the review period, as they could well serve as models for other countries. This is especially



true of countries that already find themselves at relatively advanced stages of development. The United Arab Emirates is such an example. It recorded by far the greatest growth among developed or functioning market economies. But attributing this progress solely to increased oil revenues would be inconsistent with the BTI results. In absolute terms, the state of economic transformation of the 10 largest oil-exporting countries under review (5.32; 5.03 without UAE) is on average some distance behind the global average of all 129 countries under review (5.63). Over the last two years, the subgroup of the largest oil exporters exhibited more or less the same slightly downward trend (–0.05; –0.13 without UAE) as the global average (–0.04). Two of the greatest falls came from the rentier states Angola and Iran. Despite internal political stability and high oil prices, Angola experienced an increase in social inequality, and the government's social policy promises remained unfulfilled. Thanks to its raw material revenues, its GDP per capita is well above the average for sub-Saharan Africa, although only a small, close-knit elite benefits from it, while two-thirds of the population live on less than two dollars a day. In Iran, where slow growth, rapid inflation and high levels of unemployment predominate, President Ahmadinejad (2005–2013) finished his second term in office without coming close to fulfilling his popular promise of introducing a welfare economy. As 2013 dawned, the country had almost dropped to rudimentary market economy status.

Compared to these examples, the positive economic performance of Qatar and the United Arab Emirates is both impressive and exemplary. Their formula for success was a mix of hierarchical, centralized economic planning, robust social safety nets, education systems aligned with the requirements of the economy and open trade regimes. Their long-term strategic-planning horizon is another success factor. Development strategies, such as the Abu Dhabi Plan 2030 and the Qatar National Vision 2030, aim at reducing dependency on raw material exports in the foreseeable future. Sectors such as finance, health, transport, tourism, IT and environmental technology already play a significant role.

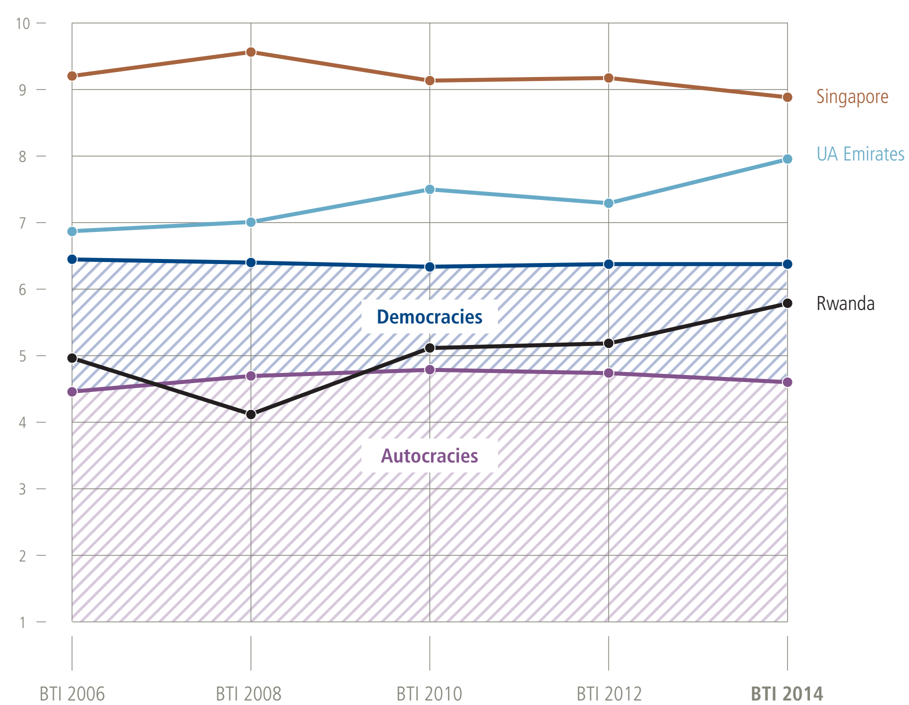
But the leading position of the two Gulf states within the MENA region shouldn't blind us to the grave environmental and social obverse to this economic success. Environmental issues are clearly secondary to economic developments in both countries. From a social perspective, too, the two Gulf states are anything but models of sustainability. Opportunities for social advancement and equality of opportunity are primarily offered to nationals. These benefits are withheld from foreign workers, who represent the demographic majority in these countries but are subject to severe discrimination. They are forbidden from forming unions and often suffer under inhumane living and working conditions. And while women are becoming more active in the economy and society, at least more so than in most other Gulf Cooperation Council member states, their opportunities for participation remain highly circumscribed. Nonetheless, the development models presented by Qatar and the United Arab Emirates, and the promise of growth and prosperity they offer, have a certain appeal for other resource-rich countries.

Rwanda: the Singapore of Africa?

The contrast between Rwanda – landlocked, largely dependent on agriculture and resource-poor – and the resource-rich Gulf states could scarcely be greater. However, the magnitude of economic transformation in this African country is comparable to that of the Gulf states, albeit at a significantly lower level of development. Over the course of eight years, Rwanda has risen from 14th place among African countries (BTI 2006) to sixth (BTI 2014). This economic development has been spurred by the urban middle class and, despite the challenges facing the country (demographics, education, employment and distribution), consistently high growth rates, a substantial finance sector, sound fiscal policy and investments targeted toward consolidation of key sectors ensure that it is already relatively stable. Like their Gulf state counterparts, Rwanda's decision-makers are working on a long-term development plan that aims at attaining middle-income country status by 2020, with modern agricultural, industrial and service sectors as well as reserves and large-scale private investment. This plan is being implemented under the guidance of the powerful Rwanda Development Board, which was established by the government. This national development agency is modeled on Singapore's Economic Development Board, which itself is acting in a consultative role.

Rwanda's development path, regarded in some quarters as a new variation on the familiar authoritarian developmental state model, has been the subject of intense discussion and debate well beyond the country's borders. Governments in other low-income countries lacking democratic legitimacy clearly see this as an example worth imitating. But the Rwandan example is also popular because of highly positive assessments in other notable comparative studies: In the current Global Competitiveness Report, Rwanda is the third-highest-ranked country in sub-Saharan Africa, behind Mauritius and South Africa; the 2013 African Prosperity Index issued by the Legatum Institute classifies Rwanda as a high-ranking country, coming in third on its governance sub-index; and, according to opinion pollster Gallup, the perceived levels of corruption in Rwanda's government and private sector are the lowest on the whole continent.

Exceptional cases notwithstanding, democracies outperform autocracies



Market economy status scores for three selected autocracies and global averages for democracies and autocracies, BTI 2006 – BTI 2014

On the other hand, the Rwandan case also contains many weak points that are typical of authoritarian development paths: political leaders whose influence reaches well into the private sector; blatant deficiencies in the rule of law impeding effective protection of property rights, particularly in rural areas; and government-aligned networks that are reputed to exert a significant influence on access to investment and credit. While Rwanda has undergone significant overall economic transformation since the mid-1990s, in absolute terms, it is only slightly above the average for all countries under review, so it (still) has some way to go before becoming a credible example for other countries.

Along with autocracies such as Rwanda, there is a range of no less attractive developing countries (e.g., Botswana and South Africa) that, despite all their problems, exemplify more sustainable economic and social progress on a democratic basis. Global comparison according to regime type shows that, on average, democracies – including countries that switched from authoritarian to democratic rule, such as Mexico, South Korea and Taiwan – are well ahead of autocracies in all seven criteria and 14 indicators. This differential is most apparent in the criteria private property and organization of the market and competition.

Of the democracies, it is Bhutan that has made the greatest progress in recent years (+1.32 points since BTI 2008). Here, strategic, centralized economic planning goes hand in hand with comprehensive democratization – a trend still continuing at an impressive pace. While the national development philosophy of "Gross National Happiness" may distinguish the country's path from conventional approaches to economic and social progress, in terms of success indicators, Bhutan is very similar to other countries boasting long-term improvement in economic transformation: continuous high economic growth, constant progress in social issues and education, expansion of infrastructure and incorporating environmental concerns into political decision-making.

Encouraging signs in Zimbabwe and Myanmar

The other four countries showing significant improvement in the review period – Côte d'Ivoire, Guinea, Myanmar and Zimbabwe – all have a low absolute state of development and have yet to prove that they are actually on sustainable paths of economic transformation. In any case, it is striking that Zimbabwe has confirmed its significant upward trend in the BTI study of two years ago (+0.71 points in economic transformation) and has now increased by a further 0.64 points. The Zimbabwean example is not just noteworthy because it is only the third economy in recent years to make the transformation from rudimentary to poorly functioning market economy according to BTI definitions. This ascent is also remarkable because – in contrast to the other two climbers, Iraq and Liberia, whose war-torn economies underwent reform and stabilization in 2006/2007 following democratization underpinned by massive international reconstruction assistance – it took place within an authoritarian system. Modest economic reforms were undertaken in Zimbabwe once the Government of National Unity was established in 2009. Despite internal resistance, the government reformers around Finance Minister Tendai Biti managed to halt the rapid economic decline of one of the poorest countries in the world by creating incentives for private-sector activity, reducing trade barriers, harmonizing state revenues and expenditures (to an extent) and restaffing Zimbabwe's once notorious failed central bank (Reserve Bank of Zimbabwe). With growth forecast to fall and investors scared off by Mugabe's faction, it remains to be seen if this upward trend will prevail.

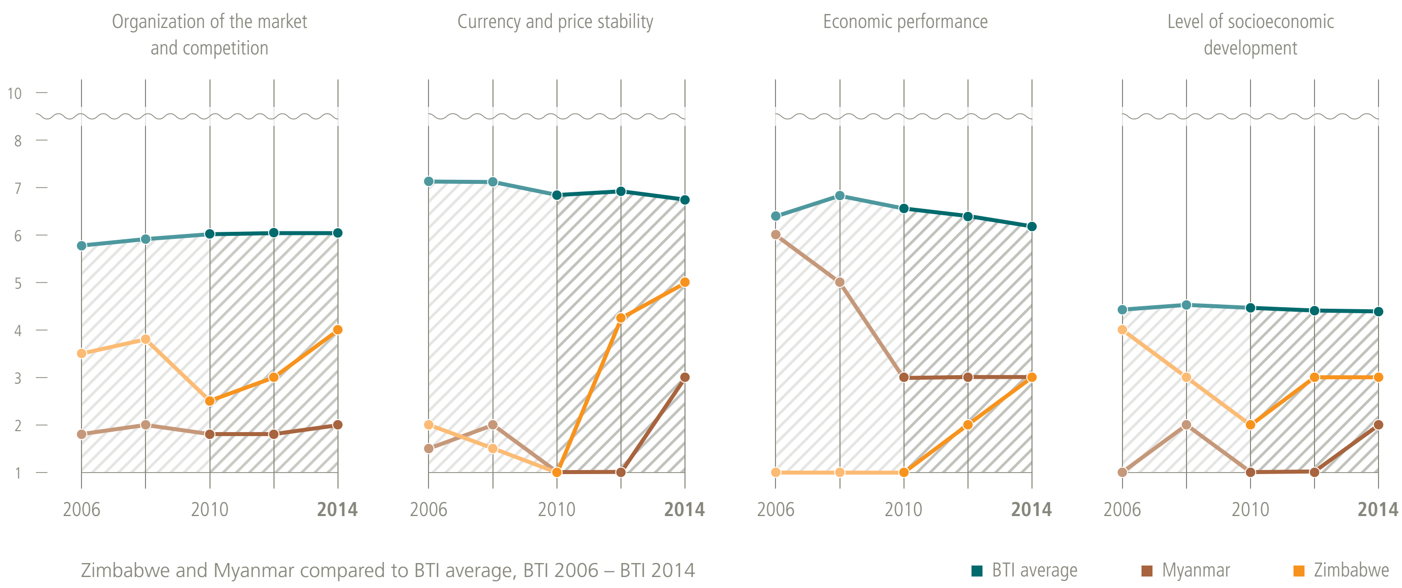
Myanmar, like Zimbabwe, has shown in the last two years remarkable improvement from a low base: The military leadership introduced economic liberalization in 2011, and the economy is already exhibiting the first positive signs in currency and price stability, environmental policies, market competition and private enterprise. Here, too, the liberalization impulse came from a leadership structure that had been in place for many years. Despite this initial success, Myanmar is still categorized as a rudimentary market economy.

The leaders in Harare and Naypyidaw, who have for decades kept their countries in isolation, have come to realize that it is in their own power to stop the negative effects of detachment from global markets and sanctions by foreign powers. However, there are major differences between the policies of economic openness practiced by the aging dictator Robert Mugabe and the military elite in Myanmar. The latter has pursued a comprehensive liberalization strategy, which also incorporates political rights and freedoms. But in Zimbabwe, where President Mugabe began his seventh term in July 2013 after elections widely perceived as rigged, liberalization has been tentative and restricted to a few areas of economic activity. Whether this strategy will bear fruit is highly questionable. As early as 2012, long before the end of the Government of National Unity, economic growth had been halved from more than nine to under five percent. But while the sustainability of Zimbabwe's economic progress is subject to debate, comprehensive reforms have brought a widespread mood of optimism to Myanmar.

Gloomy outlook for the worst-performing countries

There is less cause for optimism among the other countries in the small, stable group of rudimentary market economies, including the Democratic Republic of the Congo, Eritrea, North Korea and Somalia (which have belonged to this trailing group since BTI 2006) as well as Afghanistan (since the BTI 2008). In the dimension of economic transformation, the three-point threshold that separates rudimentary and poorly functioning market economies appears in practice to be almost insurmountable. The countries that have either fallen into or climbed out of this group in the last eight years can be counted on one hand. Moreover, none of the nine countries that have been part of this group since the BTI 2006 have managed to further ascend from the second-weakest

Recent improvements from a very low base in Zimbabwe and Myanmar



Zimbabwe and Myanmar compared to BTI average, BTI 2006 – BTI 2014

group of poorly functioning market economies – including Iraq, Liberia and Zimbabwe. This proves the deep-rootedness of structural impediments and patterns of socioeconomic exclusion, factors that have diminished these countries' development prospects for so long and would take a long time to overcome even with good governance.

It is even more alarming that four countries are now classified as rudimentary market economies for the first time – with the addition of South Sudan, Sudan, Syria and Yemen, this trailing group has now grown to an unprecedented 10 countries. Political conflict has dramatically reduced economic performance in each of four aforementioned countries. Aside from the question of how long these conflicts will last, re-establishing even a partially functioning market economy can take many years, as the experience of other rudimentary market economies in the last eight years has proved.

Along with Sudan, Syria and Yemen, five other countries have recently recorded significant falls in economic transformation (Angola, Egypt, Iran, Libya, Mali). This means that the greatest regression is confined to the Middle East and the African continent. Despite this regional concentration, the root causes vary widely. In most cases, however, tangible political conflicts are the main culprit. In countries marked by ongoing armed conflict (Syria), simmering conflict (Libya, Mali), revolutionary upheaval (Egypt), unresolved economic integration issues following political division (South Sudan, Sudan) and contested state identity (Yemen), new, unstable political conditions have led to economic insecurity and social problems.

This is particularly true for Syria, whose infrastructure has been destroyed by intense conflict in many regions of the country. With hundreds of thousands of people expelled or forced to flee, economic life has come to a standstill in many areas and brought further deterioration in already perilous social conditions among the population. Bilateral and international economic sanctions have also contributed to the country's most profound economic crisis.

Sobering prospects in North Africa

While government troops and rebels were still fighting for power in Syria, convulsions elsewhere in the Arab world have brought forth inexperienced political leaders in Egypt, Libya and Tunisia who have been overwhelmed by the burden of economic and social problems they inherited after long periods of despotism. The three North African countries are all struggling with legal uncertainty, macroeconomic instability, concerns about inflation and high expectations in the social domain, albeit to differing degrees.

In Libya, a buoyant free enterprise sector that is largely free of governmental intervention arose after the official end of the civil war in October 2011. However, in just two years, Libya has dropped considerably in the economic transformation dimension. It is not so much the macroeconomic indicators, which only recently collapsed, that are to blame. Rather, one must look to frequent accusations of rights violations and corruption as well as the accelerated erosion of the social order since the revolution, which has led to the unexplained disappearance of large portions of the national budget, greater poverty and increased gender and sectarian discrimination. Still, despite persistent functional deficiencies and significantly poorer scores, Libya's market economy remains above the North African average.

The 2011 collapse of the Qadhafi regime in Libya also had an indirect, delayed influence on the periphery of the Maghreb, in the political destabilization of Mali. The uprising of the Tuareg, armed with Libyan weaponry, unleashed political chaos in Mali in 2012, which caused the impoverished country to collapse. Since then, Mali's market economy has been downgraded to poorly functioning status. Mali's political crisis has scared off international donors and further reduced the capacities of the social system. The agricultural sector has suffered as a result of the temporary occupation in the country's North. The government, which has been chiefly preoccupied with maintaining peace and stability since the end of the conflict, experienced a severe setback in its struggle against poverty.

Unlike Libya and Mali, Egypt did not undergo a civil war. However, since the fall of the dictator Mubarak, the persistent and at times violent power struggle between irreconcilable political camps has greatly impeded economic development. Egypt's economic performance, which was judged favorably (7 points) before the outbreak of the Arab Spring, is now rated as weak (4 points). The greatest challenge facing Egypt's leaders is reconciling the economic expectations of a restive population with the political and economic conditions it inherited. Every new government will be judged by its handling of this challenge.

Economic problems of a different kind also loom over what used to be the largest African country by area. Following the division of Sudan, ongoing conflict over the means of transporting South Sudanese oil through Sudanese territory caused a dramatic drop in oil production, and consequently state revenues, in both countries. This state of affairs, together with a decline in foreign direct investment, rising inflation and a fall in creditworthiness has put the Sudanese government under considerable pressure. State spending was also severely limited in South Sudan. Consequently, urgently needed public investment in health, education and an infrastructure destroyed in the long civil war have fallen by the wayside. This fragile basis for a coexistence that enables not just peace, but also the economic development of both parties further aggravates the already difficult conditions among the populations of the two post-division countries.

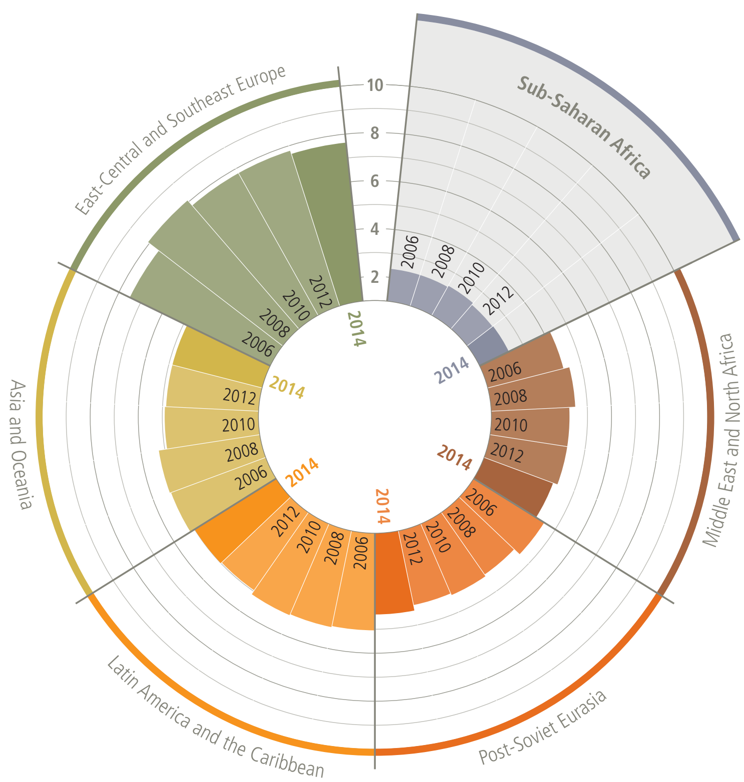
Increase in inequality

The South Sudanese state, structurally limited in its development opportunities, was born into a region that, in socioeconomic terms, has trailed far behind every other world region over the last decade. A medium-term comparison of all 34 sub-Saharan African countries reviewed since 2006 shows that the region is about as poorly positioned in terms of poverty and inequality as it ever has been. Improvements in the level of socioeconomic development in Malawi (+2), Angola, Benin, Burundi, Mauritius and Rwanda (all +1) are offset by deterioration in Eritrea, Ethiopia, Guinea, Mozambique, Namibia, Tanzania and Zimbabwe (all –1). The other continuously reviewed countries remain stable, mostly at the lowest level. Countries that only later came under review, including the Republic of the Congo, Mauritania (both with 3 points since BTI 2008) and Lesotho (2 points since BTI 2010), are also stagnating at a very low level of socioeconomic development.

On the other hand, the most highly developed of the seven global regions under review, East-Central and Southeast Europe, maintains its high level of socioeconomic development. At the same time, the Latin American countries' level of socioeconomic development is stagnating at a much lower level, while African countries remain locked in widespread poverty and inequality. In Asia, the trend of the past eight years has pointed downward. These trends do not support the generally held observation of a "notable convergence in HDI values globally," as presented in the current Human Development Report, for example.

Observing the development of poverty and inequality on a global scale produces widely differing results. On the one hand, there has been considerable progress. By far the most impressive feat was the early fulfillment of the first Millennium Development Goal of halving extreme income poverty worldwide. On the other hand, development in the BTI socioeconomic barriers indicator reveals a negative trend also in

Socioeconomic stagnation in sub-Saharan Africa



Regional averages in the level of socioeconomic development criterion, BTI 2006 – BTI 2014 developing and emerging countries outside Africa. Even in East Asia and Latin America, where great strides in combating poverty have been made, the balance of national levels of socioeconomic development has not improved.

One explanation for this contradiction must surely lie in the narrow focus on the three major emerging nations, Brazil, China and India. The dramatic reduction of poverty in these populous countries accounts for the lion's share of worldwide poverty reduction. According to the World Bank, more than 500 million people were lifted out of extreme poverty between 1990 and 2008 in China alone. However, these impressive improvements in BIC countries are not representative of the majority of the economies of the South – not, in any case, when considering the slightly downward trend of levels of socioeconomic development in the 118 continuously reviewed countries (–0.08).

Another explanation for the inconsistency between encouraging poverty figures and disappointing BTI results on socioeconomic development levels lies in an overgeneralization of the rate of extreme poverty. A fixed absolute upper limit for extreme income poverty of $1.25 per day (2005, PPP) certainly says little about the distribution of poverty and wealth or the actual living conditions of disadvantaged population groups. Consequently, the BTI socioeconomic barriers indicator doesn't just inquire into absolute rates of poverty, but also the degree of inequality. The negative trends of the current study account for the increasing inequality in developing countries over the last eight years. The economic rise of emerging countries has facilitated a limited social ascent of larger sections of the population, but it is disproportionately the urban middle and upper classes that have benefited. Regional disparities between Shanghai, South Mumbai and Campinas, on the one hand, and Yunnan, Bihar and Maranhão, on the other, have actually increased. This explains why, for example, the proportion of extreme poverty in India, a country distinguished by grave inequality and social exclusion, dropped from 41.6 percent in 2005 to 32.7 percent in 2010, with a further drop forecast, while at the same time the socioeconomic barriers indicator deteriorated by a point.

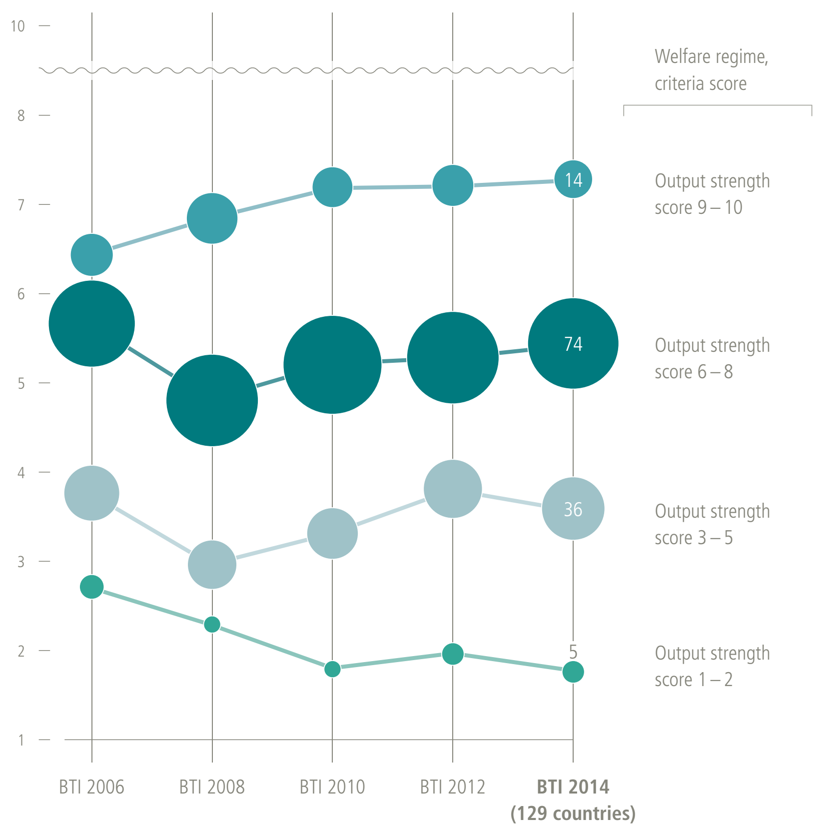
First-class social safety nets in just two countries

One reason why broad sections of the population in many countries do not adequately participate in growing prosperity may lie in insufficient social safety nets and a lack of equal opportunity. Closer scrutiny of the welfare regimes of 129 countries reveals a nuanced picture: Only the Czech Republic and Slovenia had the functioning, comprehensive health systems and effective efforts against poverty required for the best marks in the social safety nets indicator. By contrast, six rudimentary market economies had no social safety nets whatsoever. In the equal opportunity indicator, not one country received the top score, while equal opportunity is simply denied in four countries.

These extreme individual cases, positive and negative, are the exceptions. The clear majority, over 60 percent, dwell in the middle group of countries with well-developed (7 points) to rudimentary social safety nets (4 points) or equal opportunity that is largely (7) or hardly achieved (4).

However, the longer-term trend shows a slight increase: In the 118 countries continuously reviewed since 2006, the quality of welfare regimes has on average improved slightly (+0.18). This upward trend was most apparent in South and East Africa (+0.61), which pulled further ahead of West and Central Africa, but continues to trail the other five world regions. Social safety nets in Rwanda (from 3 to 6) and Ethiopia (from 2 to 5) have shown the greatest improvement since 2006. But the greatest deterioration in the welfare regime criterion also occurred in an East African country: Since 2006, the welfare regime has

Welfare gap between top and bottom performers grows



Average values in the welfare regime criterion by output strength-level group. The size of each circle represents the number of countries at a certain level, BTI 2006 – BTI 2014.

dropped further in Eritrea than anywhere else in the world (from 4.0 to 1.5).

Comparing the quality of welfare regimes with economic performance reveals a relatively strong correlation between the two criteria. The 14 strongest economies (9 or 10 points) tended to also have the best social safety nets and the best results in the equal opportunity indicator, while the five weakest economies also had the weakest welfare regimes.

Comparisons over the last eight years indicate that the statistical correlation between economic performance and quality of welfare regimes has become even more pronounced in this period. In other words, on average, the welfare regimes of the countries that were most economically successful at time of review now score better than they did in the BTI 2006, while at the same time, the welfare regimes of the countries with the weakest economies have deteriorated.

Estonia, Taiwan and Uruguay are outstanding examples of strong economies with high-performing welfare regimes. Estonia is representative of other Eastern European countries with generally well to very well-developed social safety nets and something close to equality of opportunity – and that is despite relatively low levels of social distribution in comparison with other EU member states. Another positive indication is that Estonia has found its way back to consistently high rates of growth, well above the EU average, following its economic recession in 2008 – 2009. Taiwan and Uruguay are not just among the strongest performing economies in Asia and Latin America, respectively. They also finance comprehensive welfare regimes, each with the highest expenditure for welfare as a proportion of GDP in their respective global regions, and have also improved the rights of women and the conditions for women's vocational participation and opportunities for advancement.

At the bottom end of the scale are countries such as Eritrea, North Korea and Somalia, which received the poorest scores for both economic performance and social safety nets. In these three countries, families and clans have replaced the work of state institutions, which are unable to maintain even rudimentary social safety nets due to a lack of stateness or state failure.

Despite a statistically significant correlation between economic performance and quality of social safety nets, there are several countries that do not fit so readily into this pattern. There are, indeed, some countries with a striking imbalance between these two criteria. Some countries are able to guarantee disproportionately high standards of social security and equal opportunity with only moderately strong economies. This applies above all to Cuba, Croatia, the Czech Republic, Jamaica, Slovenia and Venezuela. For four of these six countries, it seems that the robustness of the welfare regime compared to macroeconomic competitiveness can be attributed to long periods of planned socialist economies (Cuba, Czech Republic), a more recent switch to socialist economic and social policies (Venezuela), or the traditionally strong influence of social-democratic political forces (Czech Republic, Slovenia).

These examples are offset by countries where relatively strong economic performance is paired with a relatively weak welfare regime. The Chinese economy, although steered by the Communist Party, presents the best counterexample to the previously mentioned successful (post-)socialist countries with successful social policies. Chinese state capitalism, which has produced consistently high growth rates over the last 30 years, hasn't come close to reproducing this increase in the areas of equal opportunity or social inclusion. Despite more inclusive social security and a promising reform of the health system, social challenges, such as contrasts between urban and rural areas, widespread discrimination against women and the social grievances of migratory workers, remain immense.

The phenomenon of an insufficient welfare regime paired with significantly better

Differences between economic performance and welfare regime

Comparison between economic performance and welfare regime criteria for selected countries economic performance applies in a similar manner to other multiethnic countries. Despite some improvements, the social safety nets of Bolivia and Peru – both strong economies and defective democracies – remain fragmentary and poorly targeted. And despite a slight increase in the level of socioeconomic development and greater sociopolitical investment, particularly by Bolivia's Morales government, inequality remains a core problem and indigenous populations, in particular, continue to face structural discrimination. The state of affairs is considerably worse in the Central African autocracies of Angola and the Democratic Republic of the Congo. While both countries have recorded high rates of growth, the political leaderships refrain from funding state services, such as pensions, unemployment benefits or health care, for the large majority of their populations.

An overall view of the relationship between economic performance and welfare regime indicates that macroeconomically successful countries tend also to be socially inclusive societies. But cases such as Slovenia, on the one hand, and China, on the other, also underscore the fact that levels of social inclusion are not determined by GDP growth and state revenues alone, but achieved through executive priority-setting and determination in the face of structural barriers and internal resistance as well.

Sustainability still lags behind

Sustainability, in relation to environmental and education policy, remains a major challenge. This criterion received, on average, the poorest score of the seven criteria of economic transformation. Aside from East-Central and Southeast Europe, none of the global regions came close to achieving satisfactory average values. Nonetheless, the global average for this criterion has also improved more strongly (+0.32 points) than any other criterion over the last eight years. The bulk of the improvement can be largely attributed to better education and environmental policies in the six continuously reviewed countries in Southeast Europe (+0.92), 12 in West Africa (+0.71), 10 in the Middle East (+0.60) and the 13 post-Soviet states (+0.50).

While Taiwan's sustainability scores improved once again thanks to further improvements in its environmental policy, leaving the country out on its own at the top (9.5), the Czech Republic, Singapore and South Korea (each with 9.0) have retained their high scores for sustainability. In the three Asian countries, this can be attributed particularly to excellent education policies.

Some countries in Asia and West Africa improved significantly in sustainability scores during the review period. Along with Myanmar (from 1 to 3), the greatest progress in environmental policy came from Burkina Faso and Guinea (both rising from 3 to 5). It is not just the political decision-makers in the two West African countries who have increased the focus on environmental issues, but also the business sector, as illustrated by Guinean mining companies that are working to improve their environmental reputations. In educational policies, Bhutan showed the greatest improvement (from 2 to 4). Achieving universal primary-school education and doubling secondary pupil figures within four years indicates that the country's education sector is on a very positive path.

From a longer-term perspective, Liberia (from 1.5 to 4.5) and Vietnam (from 3.5 to 6.0) have made the greatest gains in sustainability. In both countries, issues of ecological sustainability have made their presence felt in legislative processes and international agreements. Although Vietnam was more successful in incorporating environmental concerns into a coherent development strategy, in these times of rapid economic development for both countries, the challenges remain immense.

In summary, it is worth looking more closely at the climbers and fallers among the 129 reviewed economies in the BTI 2014, as they can offer valuable insights into other transformation countries. Evidently, it is easier to achieve major economic progress in a short time frame in countries with lower levels of economic development and authoritarian leadership. The economic policies of the United Arab Emirates and Rwanda, which proved relatively successful in the short term, could inspire imitators in countries with comparable economic structures. But both of these authoritarian models have their price, and economic transformation processes are accompanied by major social grievances and deficiencies in sustainability. Economic transformation on a democratic basis offers a greater likelihood of long-term success. In any case, there is no one formula for success that can be readily applied to every country.

We can draw conclusions on certain trends between global regions and on a global scale in a medium-term comparison over the last five BTI studies. While the difference in average levels of socioeconomic development remains wide between East-Central and Southeastern Europe at the top and sub-Saharan Africa at the bottom, internal, regional disparities continue to grow in many countries. There is an even stronger correlation between the quality of welfare regimes, which should protect against social risks and facilitate equality of opportunity, and economic performance than there was eight years ago. And there is good news in the area of sustainability, with countries in Asia, Southern Europe and West Africa showing particular improvement.

Economic transformation, BTI 2014

Developed market economies
Score 10 to 8

15

Taiwan	9.50
Czech Republic	9.43
Estonia	9.14
Poland	8.96
Slovenia	8.93
Singapore	8.89
Lithuania	8.71
South Korea	8.71
Uruguay	8.71
Chile	8.54
Slovakia	8.54
Qatar	8.32
Costa Rica	8.18
Hungary	8.14
Latvia ▲	8.07

Functioning market economies
Score < 8 to 7

15

United Arab Emirates	7.96
Bulgaria	7.93
Brazil	7.89
Croatia ▼	7.89
Romania	7.89
Mauritius	7.68
Botswana	7.46
Malaysia	7.46
Turkey	7.46
Peru	7.32
Kuwait	7.21
Macedonia	7.14
Montenegro ▲	7.11
Serbia ▲	7.07
Bahrain	7.04

Market economies with functional flaws
Score < 7 to 5

50

El Salvador ▼	6.89
Mexico	6.89
Panama ▼	6.79
South Africa	6.75
China	6.68
Colombia	6.57
Sri Lanka	6.57
Oman	6.50
Ghana	6.43
Namibia	6.43
Albania	6.39
Bosnia a. Herzegovina	6.39
Thailand	6.39
Philippines	6.36
India	6.29
Indonesia	6.29
Kazakhstan	6.25
Armenia	6.07
Jordan	6.07
Russia	6.07
Lebanon	6.00
Argentina	5.96
Bolivia	5.89
Jamaica	5.89
Saudi Arabia	5.89
Kosovo	5.86
Georgia	5.82
Vietnam	5.82
Mongolia	5.79
Rwanda	5.79
Paraguay	5.71
Tunisia	5.68
Ukraine	5.68
Uganda	5.64
Ecuador	5.54
Nicaragua	5.54
Azerbaijan	5.50
Dominican Republic	5.50
Moldova	5.50
Algeria	5.43
Bangladesh	5.43
Kyrgyzstan	5.43
Zambia	5.39
Honduras	5.25
Benin	5.18
Papua New Guinea	5.18
Guatemala	5.11
Libya	5.11
Morocco	5.04
Bhutan ▲	5.00

Poorly functioning market economies
Score < 5 to 3

39

Kenya	4.96
Malawi	4.89
Mozambique	4.89
Senegal	4.89
Tanzania	4.86
Laos	4.82
Cameroon	4.79
Egypt ▼	4.71
Lesotho	4.71
Belarus	4.68
Burkina Faso	4.68
Venezuela	4.68
Cuba	4.64
Nigeria	4.57
Liberia	4.50
Cambodia	4.46
Angola	4.32
Mauritania	4.32
Sierra Leone	4.32
Togo	4.29
Guinea	4.21
Côte d'Ivoire	4.18
Madagascar	4.18
Burundi	4.11
Nepal	4.11
Turkmenistan	4.11
Ethiopia	4.07
Iraq	4.04
Niger	4.04
Mali ▼	3.93
Pakistan	3.86
Rep. Congo	3.79
Tajikistan	3.57
Chad	3.43
Zimbabwe ▲	3.43
Centr. African Rep.	3.32
Uzbekistan	3.32
Haiti	3.25
Iran	3.00

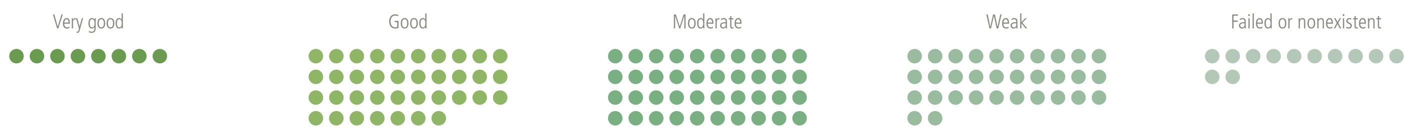
Rudimentary market economies
Score < 3

10

Afghanistan	2.96
Yemen ▼	2.89
Sudan ▼	2.71
DR Congo	2.64
South Sudan	2.43
Syria ▼	2.32
Myanmar	2.14
Eritrea	1.43
North Korea	1.36
Somalia	1.21

▲ Movement to a higher category (each arrow denotes a single category)

▼ Movement to a lower category (each arrow denotes a single category)



Transformation management

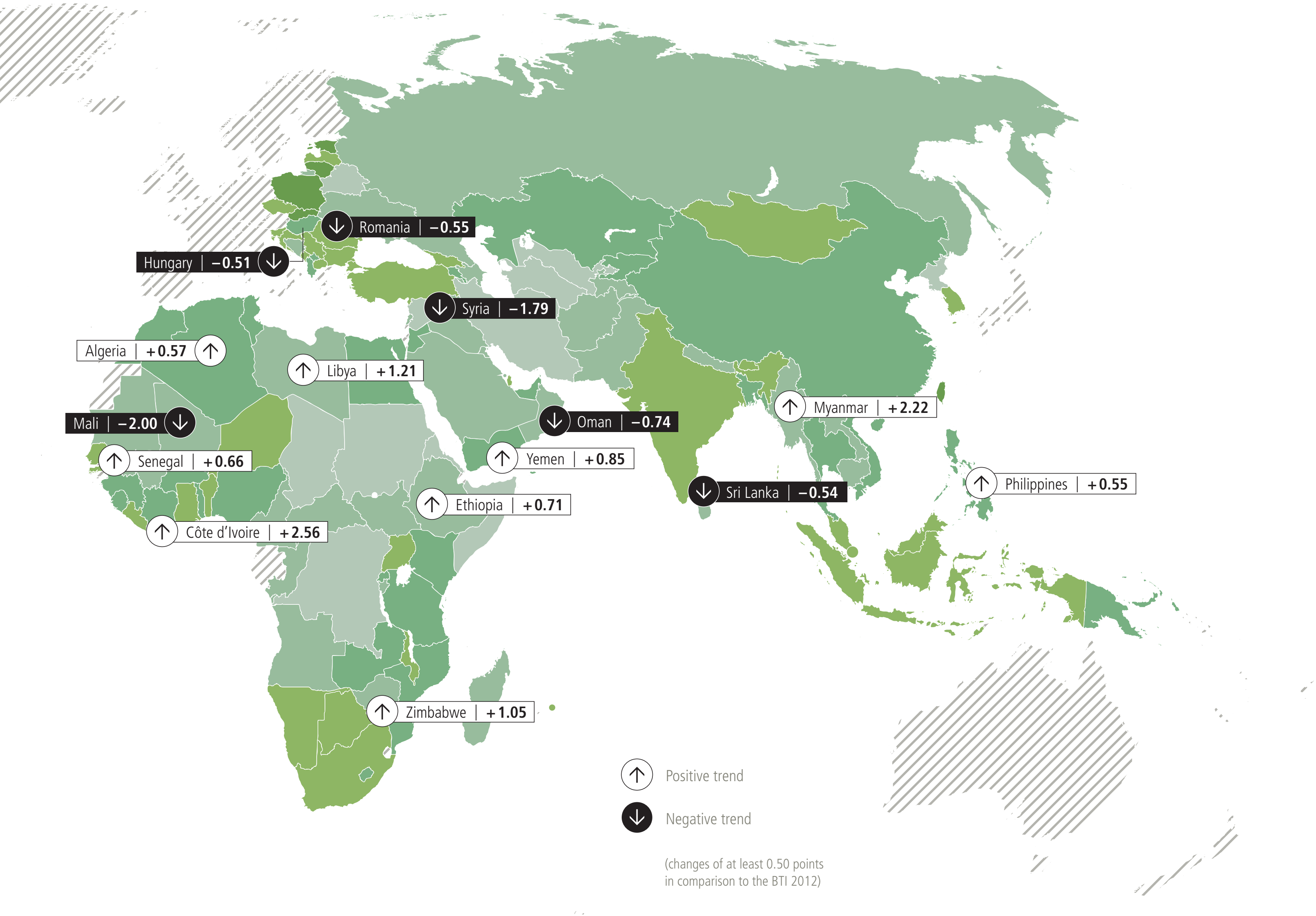
The boundaries of good governance: stronger within, weaker beyond

The Management Index assesses how consistently and purposefully governments and key agents of reform have sought to establish or consolidate a democracy under the rule of law and a market economy anchored in principles of social justice. The premise of the BTI is that a strategically sound reform policy is critical for successes in development and transformation. The level of difficulty of each country's transformation process is also taken into consideration in the Management Index analysis, as the latitude for good governance is heavily influenced by structural factors.

Similar to the state of political and economic transformation, the global average score for the Management Index from the beginning of 2011 to the beginning of 2013 has remained virtually unchanged (BTI 2012: 4.90, BTI 2014: 4.92 points). However, the consequent impression of a relative stagnation is significantly qualified by a look at the criteria level or at the various world regions. Here, the worldwide averages show that internal government management performances, such as steering capability and resource efficiency, have improved somewhat, while governments' outreach capabilities both domestically (consensus-building) and externally (international cooperation) have deteriorated. The trend is not equally pronounced in all regions: East-Central and Southeast Europe showed declines or stagnation in all management criteria, while the countries of West and Central Africa as well as Asia were able to improve their governance in most areas of management.

Praiseworthy governance in Taiwan

For the second consecutive time, the leader in the Management Index is Taiwan, following predecessors Mauritius (2006), Chile (2008) and Uruguay (2010). It is particularly noteworthy that Taiwan was able to consistently maintain its high standard of governance following its significant improvement in the BTI 2012 (+0.60). Thirteen of 14 management performance indicators were rated at either nine or 10 points. The only exception, a still-good eight points in the reconciliation indicator, is related to the country's somewhat hesitant efforts to come to terms with its authoritarian past. The Kuomintang's stringently followed course of pragmatic rapprochement with mainland China continues to impress as its electoral mandate to stay this course was firmly renewed in the parliamentary and presidential elections of 2012. In addition, in the course of the global economic and financial crisis – to which the country was quite ex-



posed given its deep integration into world trading networks – Taiwan showed a resolute and efficient crisis management, again strengthening transparency in the banking sector as well as oversight of banks' capitalization and (already low) share of non-performing loans.

Taiwan belongs to a small group of just eight states with very good transformation management and, along with Chile, Estonia and Uruguay, to the even smaller group of countries whose strong governance performances have made them a part of this group consistently since the BTI 2006. Following Brazil (BTI 2010) and Lithuania (BTI 2012), Poland and Slovakia have this time also reached the highest category of governance. Under the leadership of Prime Minister Donald Tusk's Civic Platform, now reconfirmed in office, the Polish government once again improved in the area of policy coordination, particularly with respect to the difficult internal-government discussions on pension reform, as well as in anti-corruption policy. It improved its international reputation as the result of a successful term holding the EU presidency, and it targeted external support provided by EU structural funds efficiently and effectively. Slovakia, too, under the social-democratic government of Prime Minister Robert Fico, improved in the areas of policy coordination and international cooperation. In contrast to its first term in office, Fico's government also made progress in the area of domestic consensus-building, particularly through a more inclusive style of governing that sought to promote dialogue with social partners through the establishment of a Solidarity and Development Council.

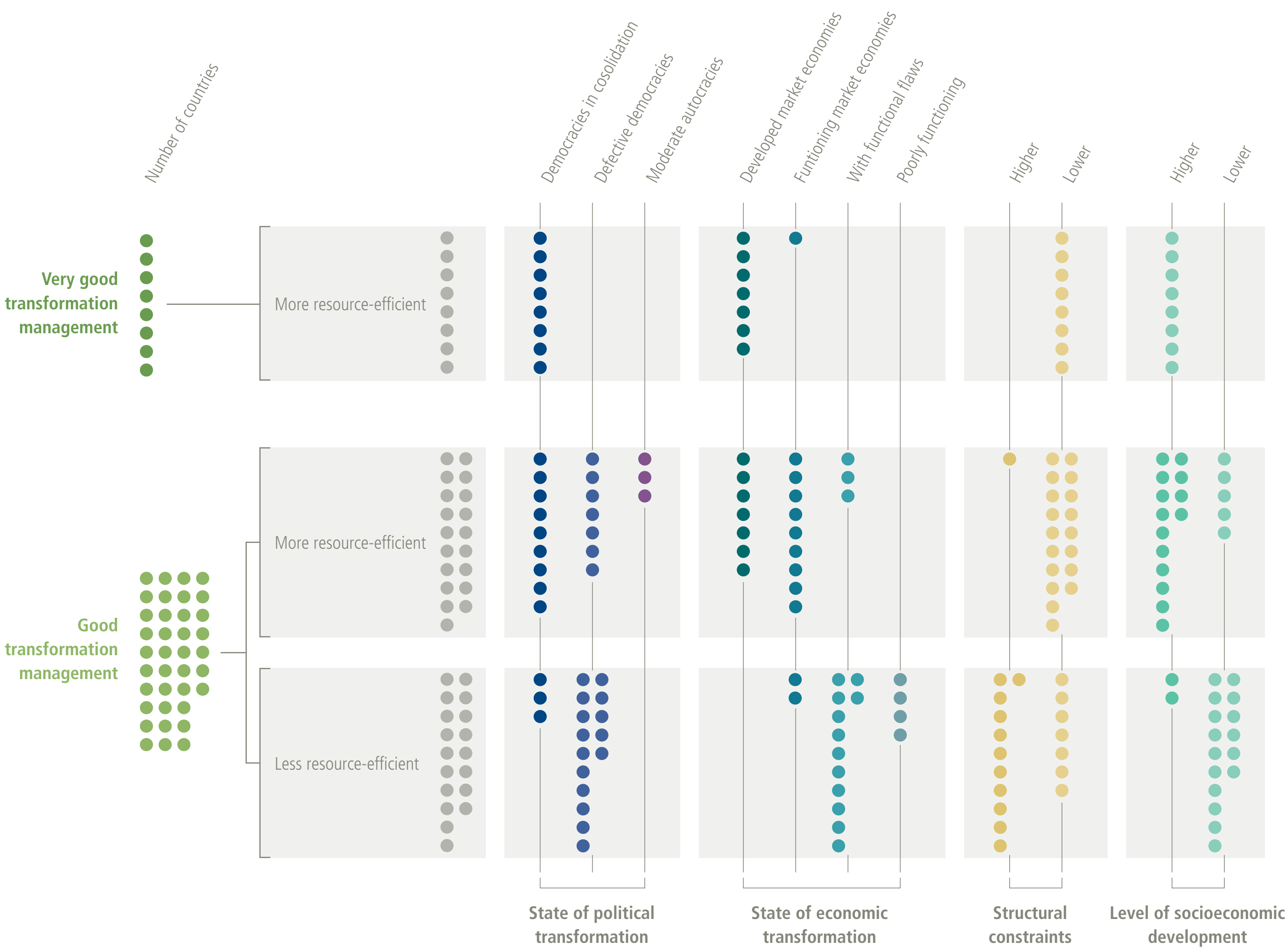
With Botswana and South Korea, two counties that had belonged to the top group continuously since 2006 were downgraded to the category of simply "good" transformation management. In the case of Botswana, which in recent years had been subject to consistent devaluations, particularly within the realm of steering capability, a slight deterioration in the area of government policy learning was this time enough to push it into the lower category. Management quality here was impaired by the fact that President Ian Khama's political leadership style has increasingly relied on assertiveness rather than dialogue. Much the same is true of South Korea. Thanks to a stable parliamentary majority, the conservative government was in fact able to carry out its primary projects. However, the authoritarian and hierarchical leadership style of ex-President Lee Myung-bak (2008–2013) repeatedly undermined government policy's legitimacy and ability to inspire consensus.

A total of 37 states were found to display good transformation management. Among these are three moderate autocracies: Malaysia, Qatar and Singapore. Thanks to an effective and far-sighted path of market-economic reform, these three performed better than all the highly defective democracies. Conversely, Liberia, Malawi, Niger and Senegal demonstrated good governance performance, although they are categorized as poorly functioning market economies with respect to their economic development status. While they can certainly boast notable successes in advancing democratization, they show weaker economic performance and an extremely low level of socioeconomic development.

Resource efficiency makes all the difference

The gap between the large group of countries with "good" transformation management and those comprising the "very good" top group is largest within the criterion of resource efficiency, totaling more than two points (average scores of 8.29 as compared

Economic development and resource efficiency reinforce each other



Higher structural constraints: 7–10 points, lower structural constraints: 1–6 points
Higher level of socioeconomic development: 6–10 points; lower level of socioeconomic development: 1–5 points

to 6.24). Among the 37 countries with good governance, a strong relationship between resource efficiency and the state of economic development is evident: Among the 18 less resource-efficient countries (6.0 or fewer points), only two – Peru and Romania – are counted among the functioning market economies, while all others are deemed at least to have functional flaws. Conversely, among the 19 relatively resource-efficient countries (6.3 points or more), only Bhutan, El Salvador and Namibia are found to show functional market-economic flaws. The strong relationship between resource efficiency and the state of economic transformation fosters the conclusion that progress toward a market economy anchored in principles of social justice as well as a more effective use of human, financial and administrative resources and improved anti-corruption policies reinforce one another.

By the same token, socioeconomic and structural constraints impede decision-makers' capability to use resources efficiently, coordinate policy and battle corruption. This is demonstrated by the fact that all eight countries with very good governance fall into the overall rankings' top third with respect to level of socioeconomic development. Within the group of 19 countries with good governance and high resource efficiency, only Bhutan, Botswana, El Salvador, Namibia and Turkey show a socioeconomic development level of five or fewer points. By contrast, within the group of 18 countries with good governance and comparatively lower resource efficiency, the share of the population whose freedom of action is constrained by poverty or social exclusion is comparatively high in all countries, aside from Mexico and Romania. Here, socioeconomic development levels are assessed at five or fewer points, particularly in the case of Liberia and Niger (1 point) and Senegal (2 points).

Resource efficiency is thus the governance criterion that is most sensitive to the structural difficulties of economically weak and socioeconomically underdeveloped countries. The 61 counties whose structural constraints are rated by the BTI as "high" or "relatively high" (7 – 10 points) were rated an average of 1.81 points lower with respect to resource efficiency than the other 68 countries with fewer structural transformation hurdles. In the other management criteria of consensus-building (– 1.27), international cooperation (– 1.33) and steering capability (– 1.43), this relationship is less pronounced. Countries such as Senegal, however, offer proof of the fact that adverse conditions, while very often discouraging a prudent use of resources, do not in fact have to do so. Despite a very low level of socioeconomic development (a steady 2 points) and high structural constraints (a steady 7), this West African country numbers among the 40 most resource-efficient countries.

Once again, the largest group is made up of 40 states whose governments have pursued transformation toward democracy and a market economy with moderate success. Twelve autocracies are represented here, including the United Arab Emirates, which achieved by some distance the highest score for resource efficiency (7.3 points) among states with moderate-quality management. A comparatively large variety of integrity mechanisms intended to fight corruption, as well as improved policy coordination, also contribute to the Emirates' place far above second-place Rwanda (6.0 points) and third-place Hungary and Jordan (each with 5.7 points).

The proportion of autocracies among the states with moderate governance quality (30 %) is significantly higher than in the group with good governance (8 %). This contributes significantly to the fact that, in countries with moderate-quality governance, consensus-building capability (typically better-rated in democracies) is significantly weaker – indeed, by an average of 1.94 points – than in those with good transformation management. The biggest differences in this regard are that the political elite's consensus with respect to the goals of democracy and the market economy is less pronounced, and above all that anti-democratic veto actors are not sufficiently co-opted or excluded from influence. In 14 countries, reform-oriented forces have little or no control over anti-democratic actors. However, these countries also trail others significantly in terms of conflict management and civil society participation.

Only five democracies show a weak transformation management

The transformation management of a total of 32 countries is classified as weak. At just a quarter of all states studied, this group of countries is bigger than ever before – even though the Arab countries of Algeria, Egypt, Morocco and Yemen, as well as Côte d'Ivoire and Thailand, have climbed out of this group. On the one hand, its growth is fed by three countries that have moved up, Libya, Myanmar and Zimbabwe, whose previously nonexistent transformation management can now be viewed as weak but nevertheless present. On the other hand, governance in nine countries with previously moderate- or good-quality governance, including Mali and Ukraine, deteriorated strongly, and they are now classified as having weak governance.

Only five democracies (Bosnia and Herzegovina, Burundi, Iraq, Lebanon and Ukraine) are among the 32 countries with weak transformation management. With the exception of Iraq, management performance in each of these has deteriorated continuously over the last six years from an already low level: in Burundi (– 0.66), as a result of a declining consensus-building capability; in Bosnia and Herzegovina (– 0.64), due to decreasing policy-learning capacities and the poor use of external support; and in Ukraine – which showed the most significant deterioration (– 0.96) – due to a poorer steering capacity in combination with deterioration in conflict management and a reduction in international credibility. The most poorly governed democracy in the BTI 2014 is Lebanon (3.92 points, ranked in 103rd place), which has lost 0.65 points in the Management Index in comparison to the BTI 2008, above all in the area of steering capability, and particularly with regard to prioritization. While the Lebanese elites operate relatively consensually in economic terms, the land remains a political pawn in regional and geostrategic conflicts, hindering a domestic rapprochement between the various political and religious camps.

In the group of weakly governed states, none of the 32 counties achieve more than a moderate rating of a maximum of 5.0 points in the three management criteria of steering capability, resource efficiency and consensus-building. On the indicator level, too, a score of more than five points is a rarity; this is seen in policy coordination (6 points for Cuba, Ethiopia, Russia and Saudi Arabia) and civil society participation (6 points for Lebanon), while a solid elite consensus enables 11 countries to score reasonably well in this area, particularly in Bosnia and Herzegovina, Libya and Ukraine, with seven points apiece.

The "failing" group is smaller than ever

The group of counties showing failed or nonexistent transformation management has shrunk to 12 countries. The number of countries in this category has never been so small. This corresponds with the the Status Index findings that the number of absolute failures in transformation has fallen. With the exception of the moderately authoritarian Venezuela, all the countries listed here are hard-line autocracies that fail to follow at least one, and in most cases both normative goals of the BTI. The states with failed transformation management, such as Eritrea, Iran, North Korea and Turkmenistan, differ from the countries with fragile governance primarily through a significantly weaker willingness and capacity for international cooperation, with an average score on this criterion of only 2.67, lower by a full 2.79 points than the average for countries in the next-highest category. On the one hand, this is an indication of the self-imposed isolation of states that have rejected transformation, and of the low level of trust accorded them on the international stage. On the other hand, however, the international cooperation criterion was the only area in which weakly governed countries were still able to score reasonably well, with some countries achieving averages of six or more points, and Kuwait even achieving a standout 7.0 points. This fact served only to exacerbate the gap separating them from the consistently very poorly rated countries with failed transformation management. Among the states with failed transformation management, Belarus shows the best use of assets and anti-corruption policy, even though these two indicators are also classified as deeply deficient (4 points).

Winners and losers in equal measure

In five countries, governance has improved significantly (more than + 0.75) in the past two years. In Côte d'Ivoire (+ 2.56) and Libya (+ 1.21), the push for democratization had a positive effect in nearly all management criteria; in Myanmar (+ 2.22), the opening process was reflected in dramatically improved international cooperation scores; from an initially low level, Zimbabwe's (+ 1.05) contested reform path primarily had positive effect within the area of the efficient use of assets and, even more notably, in anti-corruption policy; and Yemen (+ 0.85) showed appreciable progress with respect to conflict management, civil society participation and the use of external support. Algeria, Colombia, Ethiopia, the Philippines and Senegal were able to make improvements that were somewhat less dramatic, but still distinct, gaining at least 0.50 points apiece. Conversely, the quality of transformation management declined to the greatest extent in Mali (– 2.01) and Syria (– 1.79) in direct consequence of failed conflict management and military conflict. In the Malian case, the most significant deterioration was seen in credibility and regional cooperation, while in Syria, the regime's policy-learning capability saw the biggest fall. Moreover, a marked decline of 0.50 or more was recorded in the Dominican Republic, Guatemala, Hungary, Oman, Romania and Sri Lanka. Viewed over the long term, a balanced ratio of winners and losers in terms of transformation management emerges: Significant governance improvements and deteriorations, with point changes of more than 0.75 points in either direction, were each seen in 19 countries.

A number of significant shifts in the Management Index are associated with regime change or other drastic political changes that are manifest in the time series as a dramatic gain or rapid decline. In a positive sense, this can be seen in the recent developments in Algeria, Côte d'Ivoire, Libya and Myanmar; in a negative sense, it pertains currently to Mali and Syria, while Hungary and Madagascar registered the largest losses in score two years ago, and Mauritania, Pakistan and Tajikistan four years ago. Countries such as Burundi and the United Arab Emirates continue to draw from previous dramatic governance gains, but in recent years have experienced retrogressive developments with respect to governance quality. Conversely, Guinea, the Philippines, Poland and Zimbabwe have more than offset previously sharp declines as a result of recent improvements at various levels, while Thailand, despite its currently improved situation, has not yet recovered to the level reached in the BTI 2006. For Côte d'Ivoire, Mauritania, Paraguay, the Philippines, Sudan and Syria, however, a pronounced volatility in their governance proved to be the only constant.

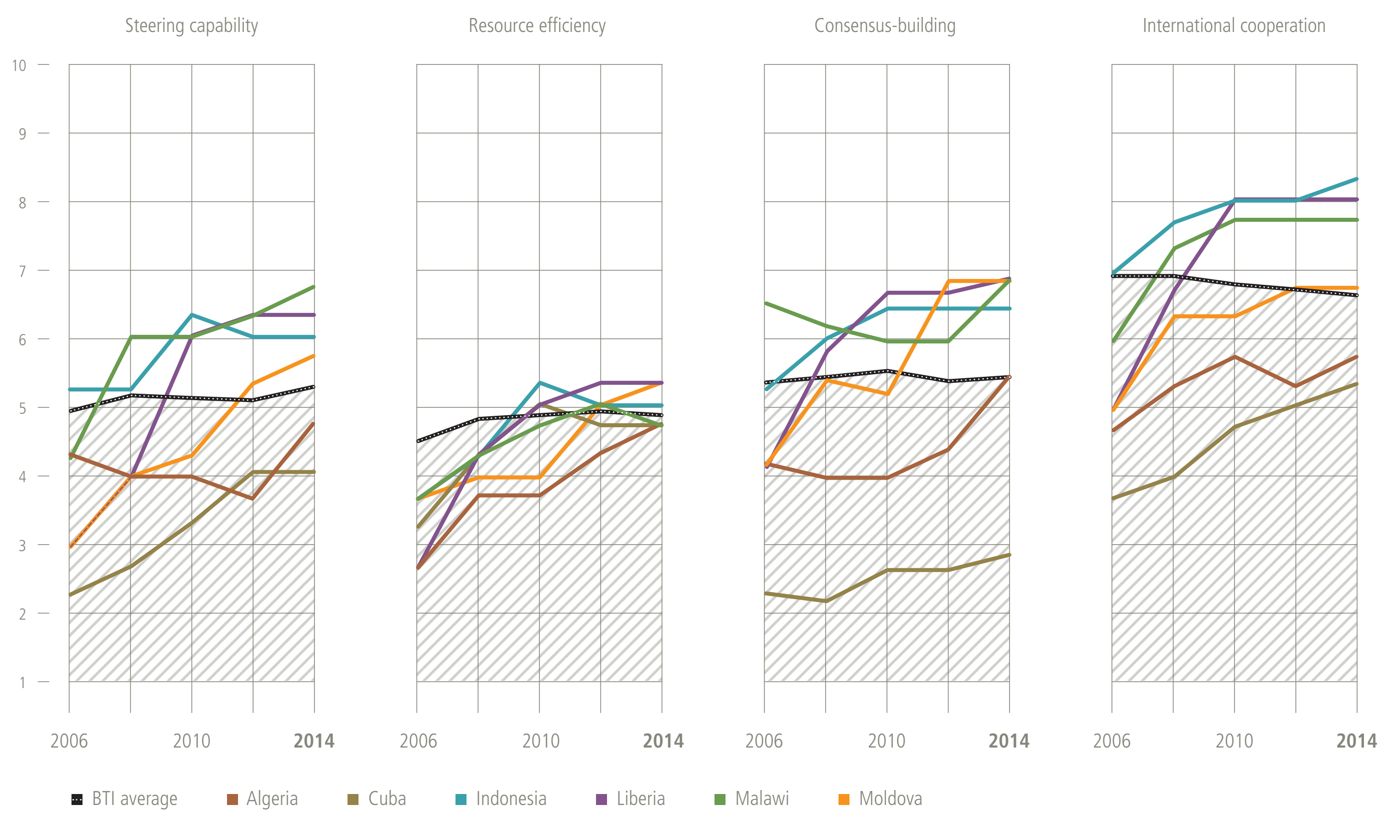
Long-term improvement proves possible around the globe

The BTI 2014 also offers examples of sustained positive change, where improvements in transformation management represent neither isolated and soon-annulled exceptions, nor one-time optimizations. In recent years, Algeria has improved its resource efficiency in all areas and has also made progress with respect to domestic reconciliation, even if the general amnesty for human rights violations perpetrated during the civil war remains controversial. The liberalization tendencies manifest in the lifting of the state of emergency and the improved election quality open up additional potential for reform, which has yielded significant improvements in terms of steering capability. This should be carefully monitored to see whether the country's less dramatic but continuous rise in governance quality evolves differently and more sustainably than the fast gains of the Arab Spring.

In Latin America, Cuba's steady progress in recent years has pulled it from the group of countries with failed transformation management to that of weak governance, while Ecuador's similarly steady improvement prompted a rise from the weak- to the moderate-quality category. In both countries, transformation goals either fully or partially fail to conform to the normative premises of the BTI; nevertheless, the policymakers' management quality has in both cases significantly increased, if from a low level. While still under Fidel Castro's charismatic state-socialist regime, Cuba's transformation management received just 2.61 points, a score that has gradually increased to 3.65 points, as the quality of economic policy management under Raúl Castro has improved, particularly in the setting and maintaining of strategic priorities. In addition, the government increasingly appears as a credible and reliable partner in the international arena. This is demonstrated, for example, in negotiations on debt rescheduling, by providing mediation assistance between the Colombian rebels and regime, through efforts to normalize relations with the United States, and by relaxing travel restrictions for dissidents. In Ecuador, Rafael Correa's management represents a striking break with the corruption and incompetence of previous governments, particularly in the areas of steering capability and resource efficiency. In terms of implementation successes, improvements in road, power-supply and health care infrastructure have been particularly notable, achieved in part through a more regular interministerial coordination. Cuba and Ecuador number among the total of just under 20 states in which the level of socioeconomic development has increased in recent years. It is notable in terms of Latin American conditions that, aside from Peru, the few other governments that have demonstrated long-term successes against poverty and inequality – Bolivia, Ecuador and Venezuela – have all taken a left-populist path.

In Post-Soviet Eurasia, Moldova is one of the few bright spots. Transformation management here has improved by 2.02 points since the BTI 2006 despite serious structural constraints and, at 5.52 points, now stands on the threshold of the good-quality governance category. Since 2009, the pro-European government coalition has continued reforms initiated by its predecessor communist-led government. It has closely followed EU standards as well as recommendations provided through the European Neighborhood Policy and by international financial institutions, benefiting as a result in the areas of steering capability and (especially) policy-learning. The reformist, professionally trained young cadre of political and administrative staffers represents a significant advantage, as does civil society's more active and closer involvement in the political process. In recent years, the elites have successfully performed a balancing act between Brussels and Moscow while defusing polarizing identity-based conflicts. However, the positive trend weakened considerably in the BTI 2014 review period. To be sure, the election of President Nicolae Timofti was able to end the political stalemate that had been on-

Cases of steady improvement in all world regions



Scores for all governance criteria in selected countries with steady gains, BTI 2006 – BTI 2014 going since 2009. However, the dismissal of Prime Minister Vlad Filat's government in March 2013, after the end of the survey period, shows that political uncertainty, changing coalition governments and the perpetually looming threat of early parliamentary elections could quickly jeopardize the focus on important reforms and the continuation of the path of transformation. Strengthening political professionalism and combating corruption more effectively will be essential for further stabilization.

In Asia, Bhutan's governance performance has steadily improved over the last several years, while that of Indonesia, after sustained optimization, appears for some time to have leveled out. Both countries climbed from the category of moderate to good management in the BTI 2010. In Bhutan, the gains are closely linked to the successful democratization initiated by the king, which resulted, for example, in better evaluations of implementation performance. Indonesia has retained rank 39 in the Management Index, a quite high level, but the government proved unable to address major reform needs, such as the revision of grant and subsidy programs. Overall, the reform path pursued by the Yudhoyono government, though quite credible and highly praised in the West, has lost some of its coherence. Thus, after years of steady consolidation, macroeconomic stability has decreased for the first time due to larger budget deficits and a populist adherence to fuel subsidies. At the same time, the largest Muslim state's international prestige and willingness to engage in regional cooperation is more pronounced than ever.

The three sub-Saharan African countries demonstrating continuous management improvement are linked by a common history of overcoming massive structural difficulties in order to ensure good governance. Liberia's degree of difficulty of 7.4 is the highest among the nine countries showing sustained improvement; nevertheless, since the election of Ellen Johnson-Sirleaf in January 2006, its consistent and continuous reform policy has allowed it to improve politically and economically in each BTI, and with a gain of 2.63 points, it shows the most substantial governance progress of any country surveyed in the BTI. No country in recent years has made greater or steadier progress in fighting corruption, and integrity mechanisms have become increasingly strong and efficient over time. Such progress was made possible by the interaction of a number of institutions, including the independent General Auditing Commission, the Finance Ministry, the parliament's budgetary oversight functions, the National Procurement and Concession Commission (PPCC), the Extractive Industries Transparency Initiative (EITI) initiated by Transparency International and the state Anti-Corruption Commission. However, the emerging clientelism of the Johnson-Sirleaf administration and its selective implementation of anti-corruption policy are worrying signs.

The current losses (−0.16) shown by Togo, another strong performer in transformation management, are negligible in comparison with the long-term gains seen since the BTI 2006 (+2.51). This poor West African country, with a socioeconomic development level of just two points, is also strongly dependent on external help, but in the last two years has shown progress with respect to the efficient use of assets and anti-corruption policy. Losses were registered primarily in the areas of implementation and credibility, as there has been skepticism about whether President Faure Gnassingbé is genuinely following a slow but continuous course of opening or simply erecting a façade of reform. The restriction of political participation rights during the period under review tends to reinforce the negative interpretation.

Along with Bhutan, Indonesia and Liberia, Malawi numbers among the states with currently good transformation management that have shown continuous improvement. Following potentially troubling setbacks at the start of the current review period, President Joyce Banda, who took office following the unexpected death of Mutharika in April 2012, contributed significantly to a further increase in governance performance, particularly in the area of consensus-building. Political participation rights and the separation of powers were significantly strengthened, while civil society participation in political decision-making processes and international credibility both improved further. The Banda regime now faces the challenge of meeting donor requirements along with citizens' socioeconomic expectations.

In counterpoint to the nine states showing steady governance improvement are 12 states in which governance quality has dropped continuously for years. These include Madagascar and Mali, both of which have seen systemic change trigger rapid collapse in recent years; Afghanistan and the perpetually crisis-ridden Karzai government; Eritrea, which has rejected transformation altogether; Iran under President Ahmadinejad; and the increasingly harshly authoritarian Gulf states of Bahrain and Oman. All are autocracies with a negative record of performance. Sri Lanka, newly classified as an autocracy, now joins this group. Due to the erosion of the country's separation of powers and the further constriction of participation rights, it has lost ground in consensus-oriented Management Index indicators (prioritization, dealings with anti-democratic actors, civil society participation) as well as in more system-neutral criteria, such as anti-corruption policy and regional cooperation.

Among the four democracies showing persistent losses, Tanzania again registered declines in the areas of prioritization, policy coordination and conflict management. The international donor community, on which the country strongly depends, has expressed particular doubts about the sincerity of initiatives affecting the interests of a ruling party that has held power for 49 years, especially with respect to the fight against corruption. International skepticism is also directed at anti-corruption policy in Mauritius, whose shortcomings in this area were made public through the resignation of several ministers in the wake of a bribery scandal in 2011. Although still at a relatively high level, the island state also saw declines in the areas of prioritization, policy learning, anti-corruption policy and international credibility. BTI 2006 Management Index leader Mauritius, whose government remains outstanding particularly in the areas of strategy development and policy learning, has now slipped to third place in the African ranking, behind Botswana and Ghana, and has fallen 0.97 points since its peak to today's score of 6.59. Former Eastern European role model Slovenia has lost more than a full point, falling from its fourth-place BTI 2006 ranking to today's 21st place. A part of this heavy loss is attributable to clumsy crisis management in reaction to the economic slump caused by the global economic and financial crisis; another portion is due to the delayed reforms and institutional reinforcements, particularly in the area of anti-corruption policy. Half of all management indicators are currently assessed at around two points lower than eight years ago, with declines having currently taken place particularly in the area of resource efficiency.

Hungary – a distressing example

While Mauritius and Slovenia illustrate how demanding it is to preserve a state previously assessed as having very good transformation management, and how rapidly traction can be lost, political management in Hungary has collapsed not simply in isolated indicators, but rather across all governance areas, and to a significant degree. The Fidesz government has largely substituted symbolic policy for strategic planning, and has focused its efforts on securing power. The undermining of democratic institutions and the rule of law goes so far as to entail a shift away from the European path. Its governance performance, ranked at 65th place with a moderate score of 4.96, places it between Nigeria and China. Each of the 14 management indicators have seen deterioration in recent years, all by at least two points, with the exception of anti-corruption policy (–1). The most significant losses have come in policy learning and civil society participation (each –3), as well as credibility and regional cooperation (each –4). During this review period, Hungary was rated more poorly particularly on these last-noted indicators due to the Orbán government's increasingly nationalist and anti-European rhetoric.

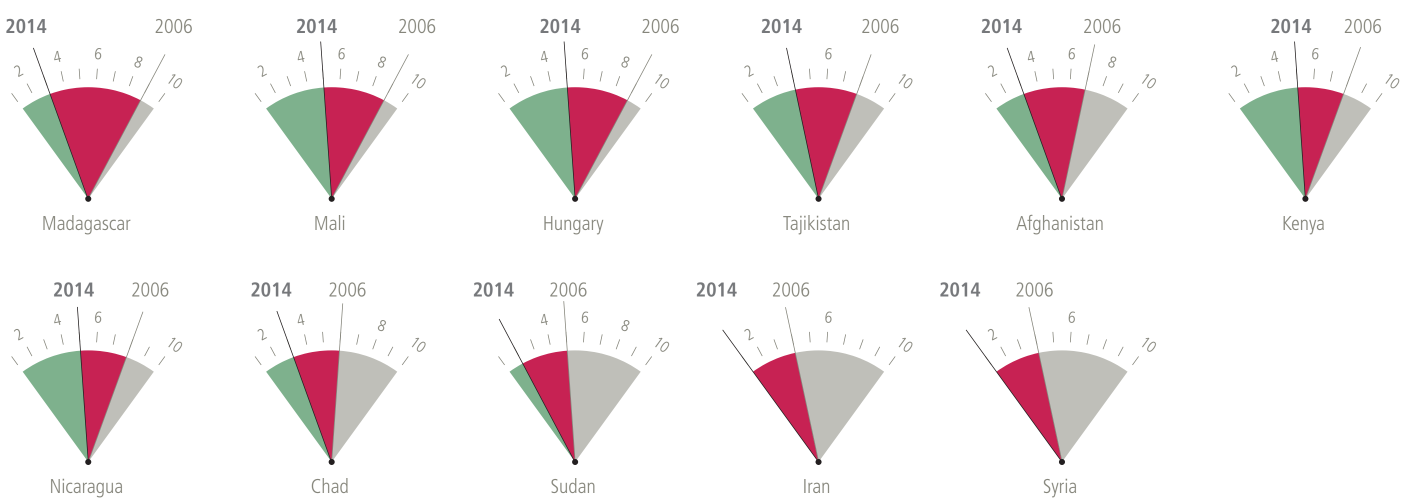
Hungary thus offers a distressing example of how even a regionally embedded, democratic and economically developed state can be severely mismanaged by an ideologically closed, narrow-minded populist government, and serves as a reminder that transformation successes cannot be taken for granted. At a lower level, this also applies to Paraguay, which in the past has consistently improved its governance. The damage done to democratic institutions through the impeachment of President Lugo, particularly to the separation of powers, resulted in a decline of governance quality that was particularly marked in the area of consensus-building.

International cooperation remains the best-rated criterion

The profile of strengths and weaknesses drawn by the BTI in depicting the political management of change worldwide remains sobering. While the political actors in the majority of states display a marked willingness and capacity for international cooperation at both the global and regional levels, their governance performances overall, particularly with respect to the effective use of available resources and political steering capability – from prioritization to implementation to policy learning – continue to lag significantly behind. At the same time, the trend for steering capability and resource efficiency, the more markedly internal-government aspects of governance, is generally upwards, while governments' domestic (consensus-building) and external (international cooperation) outreach capabilities have often deteriorated.

Nonetheless, with an average of 6.70 points overall, international cooperation remains the top-rated criterion in the Management Index. In each individual region of the world, this capability also represents the greatest governance-performance strength. A total of 74 countries achieve an average of 6.50 points or more on the three individual indicators of this criterion. However, the trend here is negative: Two years ago, this

More governments are losing credibility in international cooperation



Countries with the sharpest decline in the credibility indicator since BTI 2006 group totaled 81 states. This is less attributable to the effective use of international support than to a declining willingness to engage in regional cooperation, particularly in East-Central and Southeast Europe. This region has seen a turn away from the EU, which is blamed for a failure to deliver on promises of prosperity, coupled with populist or nationalist rhetoric that in some cases has led to tensions with neighboring countries and Brussels. Albania, Bosnia and Herzegovina, Bulgaria, Lithuania, Macedonia, Romania, Serbia and, again, Hungary in particular, which has fallen from 10 to six points in the last four years – the list of European countries showing somewhat less willingness to cooperate is long, even though the region's average score for this indicator still lies far above that of any other region and, at 8.41 points, represents the third-best management score for East-Central and Southeast Europe overall.

More governments are losing credibility

The worldwide average for the assessment of credibility has declined even more markedly than the willingness to engage in regional cooperation, falling by 0.13 points in comparison to the BTI 2012, and by 0.33 points in the last eight years. In this period, 51 governments have been progressively classified as less credible and reliable with respect to their international presence and their willingness to engage in political and economic reform. Africa has been disproportionately affected here. Countries such as Chad, Kenya, Madagascar, Mali and Sudan have lost three or more points due to the overthrow of a government or resistance to reform, as have other governments regarded internationally with skepticism, including Afghanistan, Iran, Nicaragua and Tajikistan, and, more recently, Syria in particular. Exceptions here are the stabilizing or opening West African states of Burkina Faso, Côte d'Ivoire, Liberia and Togo, whose significantly better ratings are responsible for the fact that the regional average for international reform-policy credibility rose only in West Africa despite the recent events in Mali.

Five countries (Brazil, Chile, Taiwan, Uruguay and now Poland) receive the maximum possible score of 10 points in all three indicators of the international cooperation criterion. The three Latin American states, in particular Brazil, whose international importance has increased steadily as a result of regional integration and the strengthening of South-South cooperation are notable also for their defiance of Latin America's rather negative regional trend. Within the region as a whole, numerous countries have in recent years experienced significant declines in their international credibility as a result of populist policies (Argentina, Bolivia, Ecuador), a massive erosion of the rule of law (Nicaragua, Venezuela) and increasing state fragility (Guatemala, Mexico).

Prioritization is better than implementation

Steering capability – or the capability of the government to set and follow strategic priorities, implement its policies and react both flexibly and adaptively to challenges – has developed positively in the last two years with an average gain of 0.10 globally and, in comparison with the BTI 2006, has even risen by 0.18 points. Despite this modest upward trend, the steering capacity of governments worldwide, with a score of 5.21 points, remains a weak point of transformation management and a key obstacle to development.

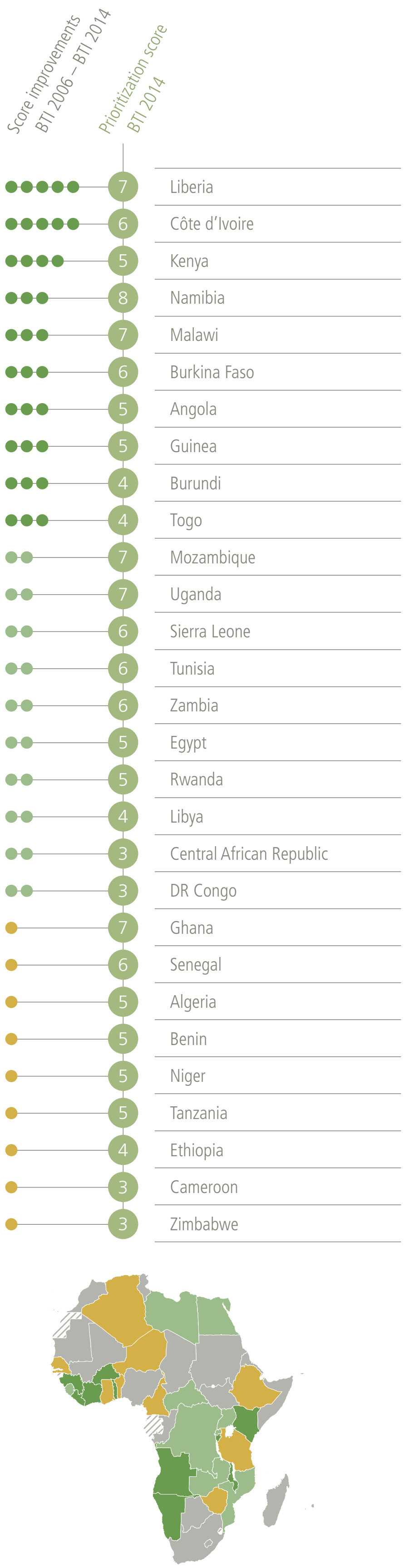
Zooming in to examine political steering capability's three indicators, it becomes evident that, as in previous years, prioritization is rated better than implementation or policy learning. Evidently, the conceptual phase of policymaking functions better in many countries than does implementation or even the monitoring and evaluation of government actions. The capability to establish a strategic policy focus and to retain priorities over the long term has improved in 52 countries over the last eight years, with fully half of these gaining two or more points.

The immense progress in Africa must be emphasized here. A total of 29 of the 52 countries showing prioritization gains, and even 20 of the 26 strongly improved countries, are in Africa. In North Africa, democratizing tendencies had a positive effect on priority-setting for Egypt's and Tunisia's (each + 2) political transformation, while Algeria (+ 1) impressed through long-term economic planning and reconciliation measures, and Libya (+ 2) contrasted positively with the erratic leadership style of Qadhafi, who made little use of long-term planning horizons outside the oil sector. Despite this progress, North African governments continue to feature limited prioritization capability (average: 5 points) as they remain insufficiently accountable.

This plays out differently in the rather more democratic West Africa: Alongside top authoritarian gainers such as Guinea and Togo (each + 3), the West African democracies, starting from a low level, achieve an average of 5.71 points with respect to prioritization. Côte d'Ivoire and Liberia, with an increase of five points since the BTI 206, along with Burkina Faso (+ 3) and Sierra Leone (+ 2), have showed particularly strong gains. Benin, Ghana, Niger and Senegal, which along with Liberia are classified as having good governance, each gained one point. These countries have distinguished themselves through their ability to hold to a democratic development path even under difficult structural conditions, as well as by a focus on poverty reduction in the context of long-term consultation with international donor institutions. The regional average for prioritization performance in West and Central Africa, where even Cameroon, the Central African Republic and the Democratic Republic of the Congo showed improvement from a very low level, rose by 1.81 points in the last eight years, driven particularly by the successes of the region's democracies.

With a gain of 1.17 points since the BTI 2006, the region of South and East Africa also demonstrates a clear increase in prioritization capability. At a high level, the most significant improvements here were shown by Malawi and Namibia (+ 3) and Mozambique and Uganda (+ 2). At a much lower level, increases were also seen in: Kenya (+ 4); Burundi (+ 3); Rwanda, Uganda and Zambia (+ 2); and Ethiopia, Tanzania and Zimbabwe (+ 1).

Setting and maintaining strategic priorities: the African record is improving



BTI 2014 scores and score changes in Prioritization indicator, BTI 2006 – BTI 2014

The positive trend is also evident in comparison to the BTI 2012, as 15 of the 30 countries with an improved record are in Africa. West and Central Africa has increased its regional average by 0.39, while the region of South and East Africa has improved by 0.27. In the best case, these positive assessments suggest that the long-term horizons of the national development plans in Namibia and South Africa, or the Malawi Growth and Development Strategy, for example, are credible. However, particularly in Central Africa, these rating upswings are often improvements from the lowest level, from a complete absence of planning to relatively unstructured policy that is nevertheless oriented along general guidelines. Yet, by contrast, the capability to set and track strategic goals has stagnated in almost all other regions of the world. Only in Asia do the latest improvements in seven countries serve to nearly make up for losses experienced since the BTI 2006.

The region of South and East Africa performs strongly not only in prioritization, trailing only East-Central and Southeast Europe and Latin America, but also in the two other indicators related to internal-government organization of the policymaking process. This puts it significantly ahead of the rest of the world with respect to the steering capability criterion. Even if all 38 of the sub-Saharan (including the generally weaker Central African) countries surveyed in the BTI are considered together, they achieve higher averages than the regional averages of the post-Soviet Eurasian, Asian or Arab countries.

Resource efficiency remains the key problem

In this edition of the BTI, too, the key management problem in an overwhelming number of countries remains the efficient use of resources. This applies to the use of available human, financial and administrative resources, to policy coordination, and especially to the fight against corruption. Overall, this is both globally and regionally the least dynamic criterion. The global average for the resource efficiency criterion has stagnated at a low 4.82 points, the worst average in the entire BTI after the level of socioeconomic development.

Singapore, an autocratic country, achieves the best score within this criterion. The city-state receives the highest value of 10 points for policy coordination, the only one of the 129 countries to do so. Botswana, Poland, Qatar, Slovakia, South Korea and Taiwan, all of which boast high scores for policy coordination (all 9 points), also earn a position in the small group of just 11 countries that achieve 8.00 points or more for the resource efficiency criterion. Of these 11, Estonia and Lithuania, like Singapore and Taiwan, too, display a highly efficient use of resources, while the Latin America countries Chile and Uruguay, along with Estonia, Singapore and Taiwan, are leaders in anti-corruption policy.

The resource efficiency criterion is particularly well suited to evaluating the performance of diverse political systems. This is because neither the transformation path and its normative orientation (as opposed to the steering capability criterion) nor credibility in implementing the assumed reform goals of democracy and a market economy (as opposed to the international cooperation criterion) are included in the analysis here. The consensus-building criterion is also normative and therefore cannot be assessed in a system-neutral way, whether in the assessment of consensus on goals and the exclusion of anti-democratic veto actors or in the democracy-derived facet of including civil society in political decision-making processes. By contrast, the resource efficiency criterion is purely focused on organizational capacity and government efficiency.

Overall, democracies achieve better average results than autocracies here too (5.52 vs. 3.86 points), though the gap between the two averages is the smallest in the entire Management Index. Take out the extreme groups – the 16 consolidated democracies, on one side, and the six failed states, on the other – and the distance between the two system groups is diminished substantially (4.84 vs. 4.06 points). In contrast to the BTI 2012, the system-group tally does not reverse itself completely if the defective democracies are compared only with the moderate autocracies. Here, the democratically governed countries' score for the resource efficiency criterion remains better (4.84 vs. 4.65), as do the indicator scores for policy coordination (5.53 vs. 5.10) and anti-corruption policy (4.31 vs. 4.05). The moderate autocracies perform better only on the efficient use of available human, financial and organizational assets (4.69 vs. 4.81) indicator.

Most remarkable is the reversal in trend with respect to anti-corruption policy. Here, the defective democracies improve moderately, by 0.19 points, while the moderate autocracies show a significant retreat of 0.55 points. Exceptions, such as Malaysia, Qatar, Singapore and the UAE, serve only to confirm the rule, as they are the only four autocracies among the 32 countries to achieve six or more points in the fight against corruption. Overall, a lack of oversight mechanisms and inadequate anti-corruption measures keep this the worst-rated governance performance indicator in the Management Index. But even if there is no current sign of progress in the fight against corruption, the long-term development, with a worldwide average gain of 0.32 points, is quite respectable. The most progress has been evident in Latin American countries, including Paraguay (+ 3 points), Haiti, Peru and Uruguay (each + 2), as well as in West African countries, including Liberia (+ 4), Guinea, Niger and Nigeria (each + 2).

Worrying trends in conflict management

The global average for the consensus-building criterion remained stable in comparison to the BTI 2012 (+ 0.02). Overall, this criterion shows the largest divergence between the scores achieved by democracies and autocracies (a total of 3.02 points). Two of the indicators suggest an explanation: First, establishing a broad social consensus with respect to pursuit of the two long-term goals, democracy and a market economy, is not in the interest of authoritarian-ruled countries. Second, the question of the inclusion or exclusion of anti-democratic veto actor does not arise if there is no democratic government in place.

In the worldwide average of the consensus indicators, it is particularly noteworthy that the capability for conflict management has deteriorated. This illustrates that the efforts of governments to de-escalate political conflicts have suffered continuous setbacks since the BTI 2006. The score for conflict management has steadily fallen from its peak of 5.92 points (BTI 2006) to 5.50 (BTI 2008), 5.37 (BTI 2010) and a low of 5.34 (BTI 2012), with its current value of 5.38 points well short of a genuine recovery. No country achieves the top score of 10 points here, and only three countries – Benin, Taiwan and Uruguay – obtain nine points. In Benin, political decision-makers have for years successfully preserved a constitutional stability and prevented instrumentalization of the country's significant ethnic and religious heterogeneity along the lines of political conflict. In Taiwan, the government has replaced the previously strongly ideological debate over the relationship with mainland China with a pragmatic policy of rapprochement, which has drawn broad popular support. In Uruguay, distributional issues are the only tensions harboring the potential to spark conflict, and the government has played a moderating role for years. Above all, significant improvement has taken place since the BTI 2006 in post-conflict African states, such as Burundi, Côte d'Ivoire, Liberia and Rwanda, while many post-Soviet Eurasian (7) and Asian (6) countries have shown small improvements, from the lowest level (Thailand, Turkmenistan, Uzbekistan) or in areas where conflict management is already well advanced (Moldova, Russia, Vietnam).

Since the BTI 2006, a total of 25 countries have proven better able to overcome sociopolitical lines of conflict, whereas in 51 countries, conflicts escalated and government mediation capabilities deteriorated. North Africa and the Middle East has been particularly affected in this regard, with conflict management worsening throughout the region: In the increasingly repressive and discriminatory Gulf states (Bahrain – 5, Saudi Arabia – 4, UAE – 1); the North African Arab Spring states (Egypt – 4, Libya – 3, Tunisia – 2); the monarchies in Jordan and Morocco (each – 2), which are wavering between reform and rigidity; Iran's pluralism-intolerant theocracy (– 3); and the countries of Lebanon (– 3), Sudan (– 2) and Syria (– 5), all of which have seen their stateness shattered by conflict or polarization. With a decline of 2.5 points in the average regional value, the ability to engage in arbitration and develop consensus is vanishing at precisely the moment when it is more necessary than ever. In a similar fashion, this is also true of the reform-weary and euroskeptical East-Central and Southeast Europe, where eight of the 16 countries surveyed in the BTI 2006 – led by Hungary and Slovenia – show themselves to be more ready to escalate conflicts than to engage in arbitration. It applies as well to the half of the West and Central African governments whose mediation capabilities and stores of consensus – as the tragic case of Mali illustrates – face extreme challenges as a consequence of ethno-religious conflicts and struggles over the control of raw materials and smuggling routes.

However, if the influence of religious dogma has grown in recent years and developed a sometimes destabilizing effect; if rapid political change has shaken institutional stability and vitiated state security functions; if populist protest has been directed against the established elites even in the democratically well-advanced regions of Europe and Latin America, not seldom resulting in an erosion of the separation of powers and participation rights; and, finally, if poverty and inequality even in economically prosperous states is not combated effectively and patterns of exclusion are becoming more deeply structurally ingrained, then it will be even more important to be able to fall back on good conflict management. However, only 20 states have developed the ability to de-escalate and engage in mediation without major qualifications (8 – 10 points). The decline in the average global value by 0.58 points represents the strongest change in a single indicator's score in the last eight years. Ominously, the second-strongest change is the increase in worldwide conflict intensity, by an average of 0.47 points.

Transformation management, BTI 2014

Very good
Score 10 to 7

8

Taiwan	7.68
Uruguay	7.46
Brazil	7.30
Estonia	7.26
Chile	7.22
Poland ▲	7.21
Slovakia ▲	7.09
Lithuania	7.08

Good
Score < 7 to 5.6

37

Botswana ▼	6.92
South Korea ▼	6.92
El Salvador	6.87
Latvia	6.82
Costa Rica	6.76
Turkey	6.66
Ghana	6.64
Mauritius	6.59
Czech Republic	6.57
Croatia	6.46
Montenegro	6.42
India	6.32
Bulgaria	6.30
Slovenia	6.30
Mongolia	6.26
Senegal ▲	6.25
Bhutan	6.24
Liberia	6.24
Namibia	6.22
Serbia	6.13
Macedonia	6.12
Niger	6.11
South Africa	6.09
Benin	6.04
Qatar	6.03
Malawi	6.01
Singapore	5.98
Peru	5.94
Colombia ▲	5.88
Uganda	5.86
Indonesia	5.80
Romania	5.80
Georgia ▲	5.78
Paraguay	5.75
Jamaica	5.67
Malaysia	5.63
Mexico ▲	5.61

Moderate
Score < 5.6 to 4.3

40

Zambia	5.55
Honduras	5.52
Moldova	5.52
Philippines	5.49
Sierra Leone	5.45
Dominican Republic ▼	5.41
Panama ▼	5.40
Mozambique	5.36
Bolivia	5.34
United Arab Emirates	5.25
Kosovo	5.20
Albania	5.17
Tanzania	5.15
Guinea	5.13
Burkina Faso	5.09
Vietnam	5.05
Lesotho	5.00
Argentina	4.99
Nigeria	4.98
Hungary	4.96
China	4.94
Rwanda	4.93
Kenya	4.89
Armenia	4.84
Guatemala	4.84
Nicaragua	4.84
Togo	4.80
Papua New Guinea	4.74
Kyrgyzstan	4.69
Kazakhstan	4.67
Jordan	4.65
Algeria ▲	4.58
Tunisia	4.56
Ecuador	4.55
Morocco ▲	4.54
Yemen ▲	4.52
Egypt ▲	4.50
Thailand ▲	4.46
Côte d'Ivoire ▲▲	4.41
Bangladesh	4.39

Weak
Score < 4.3 to 3

32

Kuwait ▼	4.29
Ukraine ▼	4.25
Sri Lanka ▼	4.22
Mali ▼▼	4.19
Ethiopia	4.18
Burundi ▼	4.14
Centr. African Rep. ▼	4.13
Libya ▲	4.10
Mauritania ▼	4.08
Iraq	4.06
Angola	3.99
Myanmar ▲	3.99
Nepal	3.98
Bahrain	3.96
Azerbaijan	3.95
Bosnia a. Herzegovina	3.95
Saudi Arabia	3.93
Lebanon	3.92
Laos	3.90
Russia	3.90
Oman ▼	3.77
Rep. Congo	3.72
Cuba	3.65
Madagascar	3.61
Tajikistan	3.58
Haiti	3.53
South Sudan	3.52
Cambodia	3.51
Cameroon	3.35
Afghanistan	3.30
Zimbabwe ▲	3.22
Pakistan	3.10

Failed or nonexistent
Score < 3

12

DR Congo ▼	2.99
Belarus	2.75
Chad	2.71
Venezuela	2.52
Turkmenistan	2.19
Sudan	2.12
Iran	1.92
Uzbekistan	1.79
Somalia	1.70
North Korea	1.38
Syria ▼	1.36
Eritrea	1.34

▲ Movement to a higher category (each arrow denotes a single category)

▼ Movement to a lower category (each arrow denotes a single category)