

# **The Political and Economic Development in the East Central European and Balkan countries: A Comparative View**

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## **1. Introduction**

The East Central European and Balkan countries have made remarkable efforts since 1990 to change their economic and political systems and to adapt standards which are necessary to join the mainstream of the European integration. The qualitative aspects of this process of transformation have been analyzed in the last two decades in countless political and economic publications. The quantitative side of the recent development has been investigated for example by Klaus Armingeon and Romana Careja (Armingeon and Careja, 2008) on a dataset which has been designed and collected by the authors for comparative research on post-communist countries. Wolfgang Merkel has also analysed (Merkel, 2008) the transformation of communist regimes in Eastern Europe and Central Asia which has referred to the data source of the Bertelsmann Transformation Index 2006. The aim of my chapter is to analyze the recent political and economic situation in the East Central European and Balkan countries and to ask about the validity of the results in the former research. The comparative investigation has been made on the recently published dataset of the Bertelsmann Transformation Index 2008.

The Bertelsmann Foundation and The Centre for Applied Policy Research investigated since 2003 the World's transition countries at a basis of international quantitative comparison. The aim of the Foundation is to provide sophisticated information for decision makers about the successful models of economic and political transformation which is the most challenging process of the contemporary international development (see Annex). The BTI has reached increasing public and institutional popularity. According to Merkel (Merkel, 2008:15), "of all international rankings and ratings of democracy, the Bertelsmann Transformation Index (BTI) provides the most reliable, transparent, and differentiated data." The World Bank has integrated the BTI in the Governance Indicator and Transparency International uses it in the Corruption Perception Index. The British Government has made the country's assessment in the international development policy aided by BTI. Increasing number of publications in development policy has quoted the results of the BTI and has witnessed about its acceptance.

## **2. The results of the East Central European and Balkan countries' transformation**

The general evaluation of the transformation process in global comparison is not very flattering. The introductory chapter of the book (Bertelsmann Foundation, 2008:3-4) says that "it appears that the third wave of transformation has come to a standstill". The reasons are also mentioned as follows: "In the vast majority of transformation processes, periods of upheaval or successful transitions are often followed by a period of stagnation, or in more positive terms, the consolidation of what has been achieved". But the East Central European and Balkan countries seem to go another way: "Clearly, steady, rapid and linear transformation processes like those observed in the EU accession countries are generally an exception."<sup>1</sup>

According to the ranking of 2008 among the 125 evaluated countries the sixteen analyzed East Central European and Balkan countries achieve the places 1 to 40 by the Status Index and the places 2 to 82 by the Management Index. But there is a big difference between the scores of the new EU member and the West Balkan states (see Table 1) The ten new member states have rankings from 1 to 17 in the Status Index and from 2 to 22 in the Management Index. There are only two West Balkan states which have better scores than the new EU member states: Croatia's Status Index is better than the Status Index of Bulgaria and Romania. Macedonia is one point ahead of Romania according to the Management Index. These differences are marginal but show that the categorisation can be made only with exceptions in the member and candidate countries' groups.

## **3. The analysis of the transformation results**

I have analyzed the correlation between the index values of the East Central European and Balkan countries in the year 2003 and 2008. The correlation coefficients show that there is a very tight connection between the Political and the Economic Transformation Indices. The value of the correlation coefficient according to values in 2008 is 0.994 which is very convincing. It proves also that the results in the political and economic transition are not dividable, thus the political and economic transformations are mutual conditions of each other. The results of the BTI 2003 with the correlation coefficient of 0.944 prove that there has been no change in that strong connection<sup>2</sup>.

The correlation between the Management Index and the Political and the Economic Transformation Indices are not very tight. The correlation coefficients 0.748 and 0.717 in 2008 indicate that there is a connection but it cannot be evaluated as statistically significant. In the BTI 2003 report the correlation coefficients were some higher, 0.832

and 0.732. If there is a positive connection between the intentions or capacity to manage the transition and the achieved transformation results, it is not very convincing and in the recent period has lost its importance.

The Tables 2, 3 and 4 illustrate the correlation between the values of the Political Transformation, Economic Transformation and Management Indices in 2008 for the 16 East Central European and West Balkan countries. The tables visualize that in some cases the countries can be divided not only into the two groups of the new EU member and the West Balkan countries. According to the values of the Economic and the Political Transformation Indices most of the West Balkans and the new EU member states are in different clusters, but Croatia has a place in the cluster of the more developed new EU member states (Table 2). The correlation between the Management and the Political Transformation Indices demonstrates the existing two clusters of the West Balkans and the new EU member countries, but there is also a third cluster of countries (Romania, Bulgaria, Croatia and Latvia) with values between the other new EU member and West Balkan countries (Table 3). It is interesting that there are some West Balkan countries with a relatively high level of Management Index value and a lower score of the Political Transformation Index like Macedonia and Montenegro. On the other side the example of Poland proves that a low level of management capacity can correlate with a higher standard of political transformation.

The same situation is suggested according to the correlation between the scores of the Management and the Economic Transformation Indices (Table 4). The East Central European and Balkan countries in this respect can be divided in three different clusters. The values are quite similar in the West Balkans but the new EU member states can be divided in two different clusters. Romania, Bulgaria and Latvia are tight connected and Croatia is also part of that cluster. The other new EU member states as Slovenia, Estonia, Slovakia, Hungary, Lithuania and the Czech Republic have significant higher Management and Economic Transformation Indices than the countries in the other two clusters. The highest scores of the Management Index have Estonia and Slovakia which has made the most convincing success in the catching up process of the new EU member states.

The correlation coefficients indicate that the connection between the management capacity and the status indices are not so tight. My starting idea has been that the values of the indices influence the economic development level of each country. For characterization of the general economic development level I have chosen the Gross National Income per capita variable which is published by the World Bank for all East Central European and Balkan countries for the years till 2006.<sup>3</sup>

A tight connection is proved between the GNI and the economic and political transformation indices. The correlation coefficients are 0.838 and 0.827 in 2006. The tightness of this connection became stronger in the analyzed period because the values of the correlation coefficients were in 2003 only 0.756 and 0.782. But the management capacity of the certain countries does not seem to influence the GNI per capita. The correlation coefficients are in 2006 0.541 and in 2003 0.532.

The correlation between the Economic Transformation Index and the GNI per capita scores is indicated for all East Central European and Balkan states in Table 5. There are here at least three different country clusters. The West Balkan countries - except Croatia - are in the cluster with modest GNI per capita value and low Economic Transformation Indices. The EU member states which joined the EU 2007 (Bulgaria and Romania) are in a different cluster with higher Economic Transformation Index and relatively low GNI per capita values. Croatia is in the same cluster where the most new EU member states with a higher GNI per capita value than the values of Latvia, Lithuania and Poland. Slovenia has the best GNI per capita value and a nearly highest Economic Transformation Index, so it makes alone "the fourth cluster".

#### **4. The development in the transformation process in the period between 2003 and 2008**

All East Central European and Balkan countries have made in the above mentioned period a considerable development. The correlation coefficient between the GNI per capita values is 0.986 which is very convincing. The cluster building is illustrated in Table 6 which proves that Slovenia stands alone with a high developed market economy of Western standards. The other countries here are divided in two different clusters. It is interesting that Croatia is in the group of the economically more developed new EU member states and Romania and Bulgaria is rather member in the cluster of the West Balkans.

The development of the Political Transformation Index in the period between 2003 and 2008 is exhibited in Table 7<sup>4</sup>. There are here also three different country clusters. The West Balkans - except Croatia - have the smallest scores. Bulgaria, Romania, Croatia and Latvia are in the cluster in which the countries have made big efforts but could not reach the best scores. All other new EU member states are in the cluster of the most developed countries concerned. But the situation in 2008 is worrying. A lot of new EU member states reached the best scores in 2003 but in 2008 the evaluation was not so favourable. The best scores have been given in 2008 to Slovakia and the Czech Republic, while the position of Poland has worsened significantly.

The probably most difficult task is to manage the economic transformation. The correlation of the Economic Transformation Index in 2003 and 2008 in Table 8 displays that there are clusters with floating borders among the East Central European and Balkan countries. Between the most developed new EU member states as Czech Republic, Slovakia and Estonia – which have made in the recent period the biggest efforts to restructure their economies – and the West Balkans – which has begun with the transformation process a decade later than the new EU member states – there is a transition strip with the countries like Bulgaria, Romania, Croatia, Latvia and Poland.

The most disturbing picture appears in Table 9 where the correlation is indicated between the Management Indices in 2003 and 2008. The Management Index evaluates the reform capacity and skill of each government to lead the transformation process. The period between 2003 and 2008 influenced the commitment of some governments to manage successfully the process of the political and economic transformation. However, other governments which joined the EU have become tired of the former efforts to meet the necessary requirements, while some West Balkan governments have been encouraged by the acceleration of the accession process. The results of that contradictory process are displayed in Table 9. The West Balkan countries like Macedonia and Montenegro have developed their management capacity in the mentioned period, but the current situation in Bosnia-Herzegovina, Albania, Serbia has been disappointing. The score of Poland in 2008 is even worse than of Serbia which is an alarming sign for the further development in this country.

## **5. Summary**

The analyzed Bertelsmann Transformation Index gives a relevant and highly sophisticated view about the situation of the transformation process in the East Central European and Balkan countries. The comparison of the results for the years 2003 and 2008 makes it possible to evaluate the transition effects connected to the difficulties regarding the accession preparations for the new EU member states as well for the West Balkans.

The analysis of the correlation coefficient between the Political and the Economic Transformation Index proves that the political and economic factors of the transformation have the same importance and confirms that they are mutual conditions of each other<sup>5</sup>. The governance capacity to manage the transition is also important but the connection between the Management Index and the Political and the Economic Transformation Indices is not too tight. The interdependence of the real economic development measured on GNI per capita variable and the more subjective institutional factors of the Bertelsmann Transformation Indices is also confirmed in the statistical analysis.

The evaluation of the scores achieved by the East Central European and Balkan countries demonstrates that the new EU member states and the West Balkans can be divided in two different clusters. According to the cluster building on the base of the different indices Romania and Bulgaria display more similarity with the West Balkans. On the other side different indices of Croatia demonstrate that it is rather member in the cluster of the more developed new EU member states<sup>6</sup>. Macedonia's score is also different from the cluster values of the West Balkans but it could not achieve yet the scores of the new EU member states. The group of the new EU member states is also not homogeneous. Slovenia, Estonia, Slovakia and Czech Republic have significant better scores than the other new EU member states. In the final evaluation - according to the analyzed BTI Indices - the 16 new EU member and Western Balkan states can be divided into the groups of the East Central European (Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia) and Balkan states (Albania, Bosnia-Herzegovina, Bulgaria, Macedonia, Montenegro, Romania, Serbia).

These results does not differ significantly from other research findings. According to the Freedom House ranking some European countries achieved the democratic status in the period between 1990-2002 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Bulgaria, Croatia, Mongolia, and Romania) and the countries of the West Balkan were not democratic in 2002 (Albania, Bosnia and Herzegovina, Macedonia) (Amingeon and Careja 2008:440). Merkel (2008:21) has classified the East European countries<sup>7</sup> in four groups: constitutional democracies, defective democracies, strongly defective democracies and autocratic systems. All East Central European and West Balkan countries have been in the first two groups in 2006. Besides the East Central European countries Croatia, Bulgaria and Romania are constitutional democracies. All West Balkan countries are among the defective democracies.

The situation of the transition capacity in each country displays a very contradictory picture. According to the values of the Management Index some West Balkan states have the possibility to achieve better results in the real and institutional convergence. On the other side some new EU member states give signs of the "transition fatigue". The consequence of this "transition fatigue" could be a slow down in the political and economic transformation which will make deficits in shorter or longer time in the catch-up process with the average of the European Union countries<sup>8</sup>.

The quantitative research about the recent situation of the transformation process in the East Central European and Balkan countries can not identify the reasons for their development. Each country has dealt with its own problems of transition on the basis of its historic and institutional traditions. External factors might have contributed to the

success of that process. Armingeon and Careja have identified the major explanatory variable for institutional change “the status of being an EU or NATO accession candidate” (Armingeon and Careja, 2008:442). Merkel’s opinion is that “through the Copenhagen Criteria (1993), the European Union formally spelled out the link between democracy and membership, stipulating that only consolidated democracies with market economies were to be admitted to the EU.” (Merkel, 2008:27). The external pressure of the international organisations, the successful integration of the East Central European countries and the clear prospects of the admission can help the West Balkan countries to reconstruct their economic and political life and to speed up their efforts for accession.

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<sup>1</sup> The transition process of the East Central European and Balkan countries can be regarded successful only in a world-wide comparison. According to Ágh (Ágh, 2006:334)

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„Almost all EU analyses deal with the crisis phenomena and many publications concentrate on the crisisology that has been some kind of the ‘crisis studies’”

<sup>2</sup> During the enlargement process the new member states concentrate on the quantitative catching up in the terms of the per capita percentages of the GDP averages. But they need also a qualitative catching up which is characterized by high level of public services and social consolidation (Ágh, 2007:21). Those can not be achieved without an appropriate institutional background which is measured by the Status Index.

<sup>3</sup> I have chosen for the analysis the years 2003 and 2006 because the BTI 2008 referred to the situation in the beginning of 2007. I suppose that the difference of only one year does not distort the conclusions.

<sup>4</sup> There has been a change in the methodology. The maximal score in 2003 was 5 and in 2008 it was 10.

<sup>5</sup> The transformation of the East European countries has been maintained at three different levels simultaneously: at political, economic and governmental level. Wolfgang Merkel has quoted in his article the opinion (Elster, 1990 and Offe, 1991) that it is impossible to manage the three transformation tasks simultaneously. He has investigated the transition results of 18 Eastern European and Central Asian countries according to the BTI 2006 and has pointed out that only six countries have been unable to consolidate their system. The main factor of the (partial) success of the transition in the other 12 countries has regarded Merkel in the “decision in favor of parliamentary systems of government’ which ‘advanced consolidation rapidly”.

<sup>6</sup> According to the evaluation of the EC in the Country Report 2006, ‘Croatia achieved a considerable degree of macroeconomic stability with low inflation.’ Major macroeconomic indicators place Croatia far at the helm of the SAP countries, but also in the mid-range of the new member states (Samardzija, 2007:118).

<sup>7</sup> Besides the new member states and the West Balkans Merkel has mentioned Ukraine, Russia, Moldavia and Belarus as East European countries (Merkel, 2008:21).

<sup>8</sup> Transition, integration or enlargement fatigue is mentioned in several studies (Ágh, 2007:16, Samardzija, 2007:113, Vuletic, 2007:159) and it describes the general disappointment related to the contradictory results of the catching up process in the transition countries in a very popular and suggestive matter.

### **Annex**

The Bertelsmann Foundation has developed a transformation index which measures the performance of the developing and transition countries regarding the current state of democracy and market economy. The Bertelsmann Transformation Index was published in 2003, 2006 and 2008 with the nearly same methodology so it is suitable to compare the progress of the countries which are involved in the publication. I have chosen the years 2003 and 2008 because the two mentioned years are crucial in terms of the accession process of the East Central European and Balkan countries. Ten new member states joined in that period the EU and for the West Balkans these years were critical for the reinforcing of the intention for the cooperation with the neighbouring and other EU member states.

The Bertelsmann Transformation Index investigates dimensions democracy, market economy and political management according to 17 criteria and 52 questions. The questions are answered by local experts and are summarized in a country report. After completion the country report is submitted for a second expert – which is in some cases a person outside of the country – for scrutiny. This process of correction and improvement is supervised by a regional coordinator who monitors the report quality and looks after the plausibility of scores within the region. In the next step the results are evaluated in international comparison and the final results are audited and approved by the BTI Board which is a group of experienced development and transformation experts.

The BTI project – recent results were published in the beginning of 2008 – has analyzed 125 countries in the World which (1) have not reached the status of consolidated market-based democracy; (2) have an international recognized sovereign state status; (3) have a minimum population of two million.



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The results of the country reports are summarized in the Status Index and the Management Performance Index. The Status Index is divided in two different indices: the Political Transformation and the Economic Transformation Index. The Status Index gives information about the actual situation of the transformation process in the analyzed country. The Management Performance Index informs about the subjective capacity of the country to implement the necessary changes according to the different difficulty level in each country.

The Political Transformation Index deals with the questions of stateness, political participation, rule of law, stability of democratic institutions and political and social integration. The Economic Transformation Index investigates socioeconomic development, market organizations, currency and price stability, private property, welfare regime, economic performance and sustainability. The Management Performance Index analyses steering capacity, resource efficiency, consensus building and international cooperation. The results of the Political and Economic Transformation Index are summarized in the Status Index which shows an actual stand of the objective side of the transformation process. According to the values of the Status and Management Indices the countries are ranked in two lists. The places in the rankings of the different years give information about the successes and failures of the developing and transition countries in the recent period.