
*Economic transformation*

# No sustainable quick wins

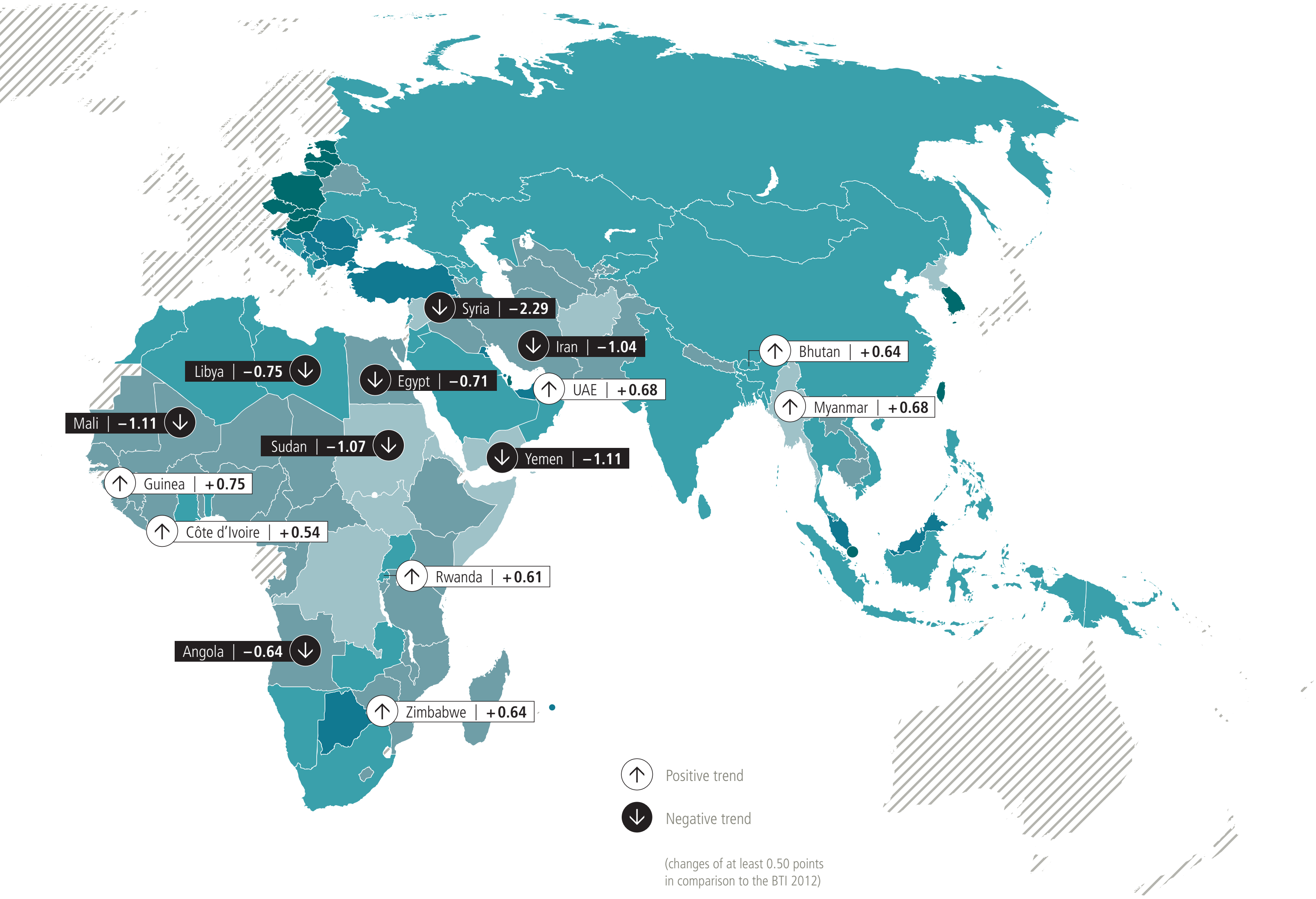
More socially oriented, with a greater contribution from free enterprise and improved sustainability: An examination of economic transformation between January 2011 and January 2013 reveals many individual examples of progress. In the former Soviet republics of Belarus, Ukraine and Uzbekistan, for instance, 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.

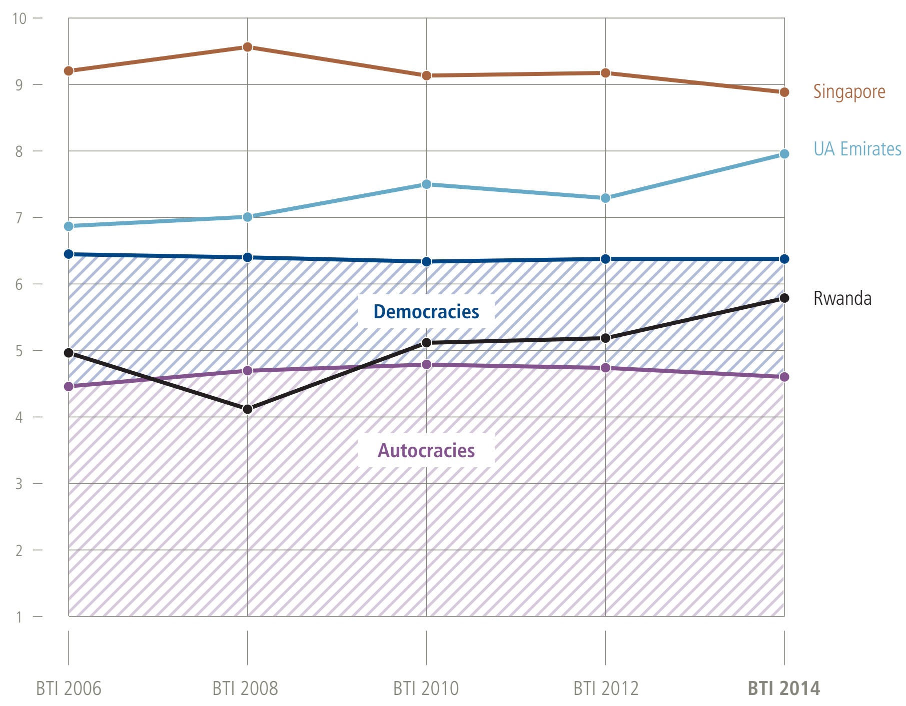
But the leading position of the two Gulf states within the MENA region shouldn't blind us to the grave environmental and social obverse to this economic success. Environmental issues are clearly secondary to economic developments in both countries. From a social perspective, too, the two Gulf states 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.

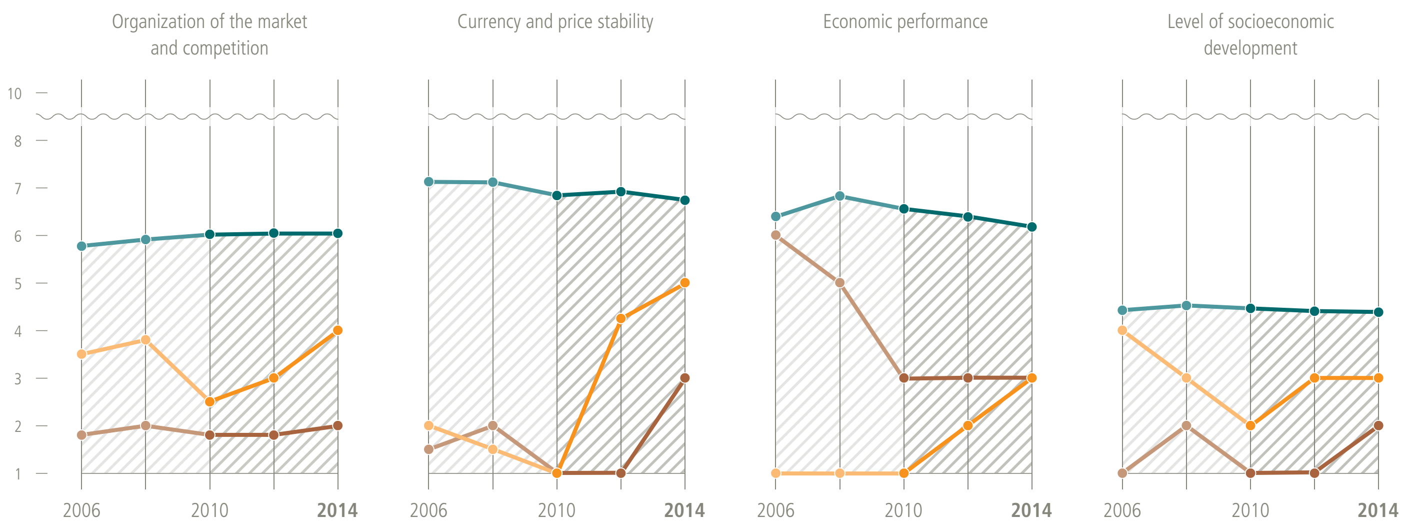
Myanmar, like Zimbabwe, has shown in the last two years remarkable improvement from a low base: The military leadership introduced economic liberalization in 2011, and the economy is already exhibiting the first positive signs in currency and price stability, environmental policies, market competition 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.

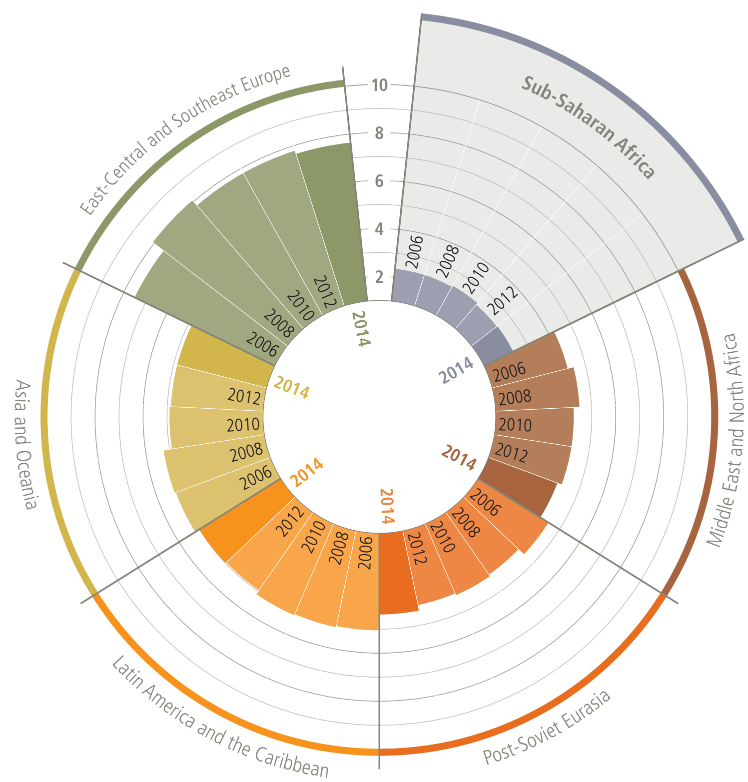
## Increase in inequality

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.

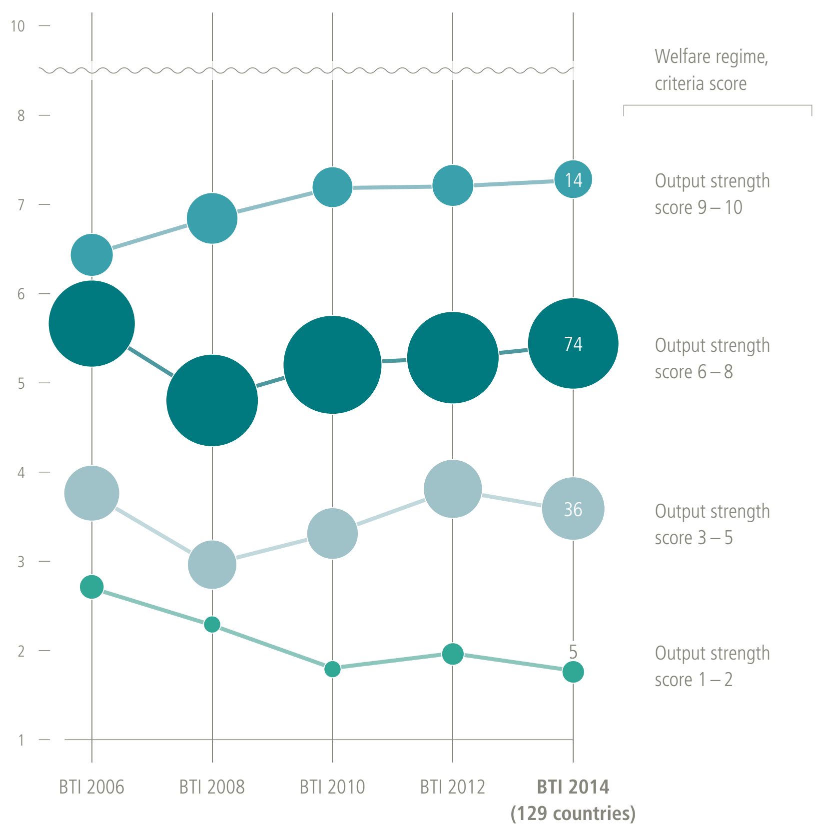
## First-class social safety nets in just two countries

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)