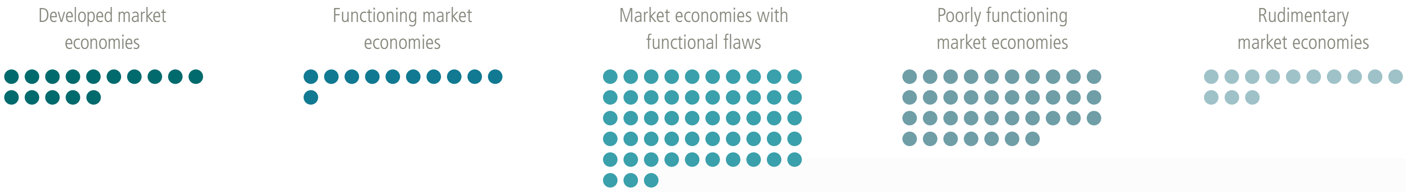


Economic transformation

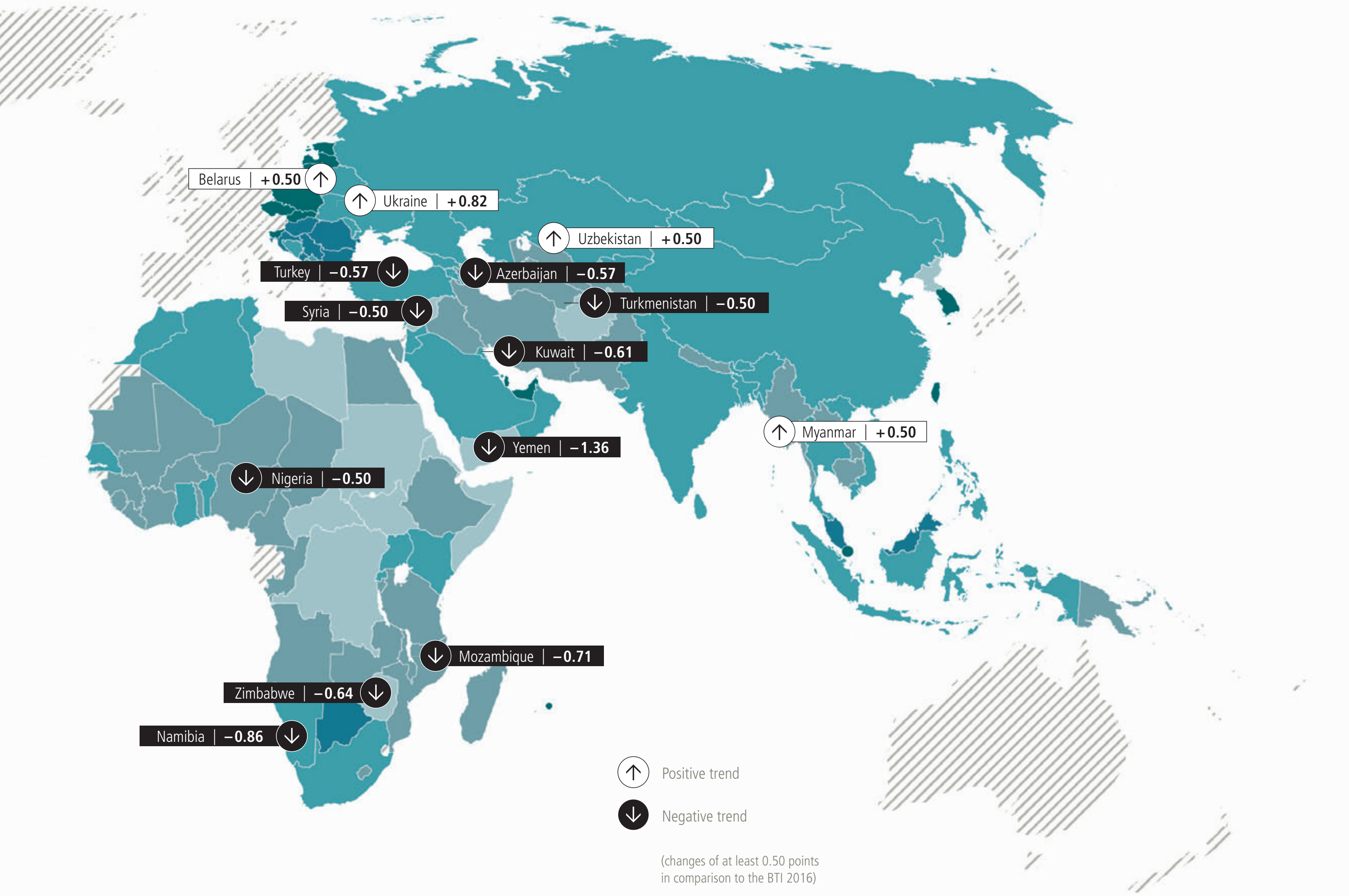
Perpetual crisis mode

Over the course of the past 10 economically rather turbulent years, many developing and transformation countries have suffered weakening economies that are subject to greater instability and, in some cases, ever-widening gaps between rich and poor. The ongoing decline in commodity prices over the last two years has once again significantly exacerbated this trend. For the most part, however, this poor state of affairs cannot be attributed solely to global economic factors. Mismanagement, clientelism and the lack of economic-reform capacity have played at least as large a part – particularly with respect to autocracies.

The past decade has been an economically difficult phase for most developing and transformation countries. Three crisis phenomena stand out in particular. First, the deep-running global economic and financial crisis led to export slumps and capital flight in many countries, and ultimately to an economic recession from which some of the 129 developing and transformation countries have yet to fully recover. Key macroeconomic indicators tumbled in immediate or somewhat delayed consequence of the economic and financial crisis, especially for powerful economies that were deeply integrated into global trade flows (e.g., China and Singapore), but also for countries that were dependent on economically strong neighbors (e.g., Armenia and Kazakhstan). While Asian and Latin American economies (with the exception of Brazil) recovered relatively quickly, some countries – particularly in East Central and Southeast Europe – have overcome their crisis-related slumps only slowly, and have yet to regain their relatively high economic-performance levels of the previous decade.

Second, the sharp decline in many raw-material prices from a high in 2011, as well as the crude-oil price since the autumn of 2014 combined with a strong dollar, have had a particularly potent effect on export-dependent and poorly diversified economies, leading to balance-of-trade and budget crises as well as to recessions. Economic stability was shaken in numerous countries and, in many cases, the viability of export-oriented development models was even called into question. Governments seeking to redress social disparities were deprived of the financial resources needed to fight poverty and support social-participation programs, and societal inequality began once again to rise. In the current review period, from February 2015 through January 2017, the fall in commodity prices led to dramatic economic-performance slumps particularly in the Gulf states of Bahrain and Kuwait, the Central Asian states of Azerbaijan, Kazakhstan, Mongolia and Turkmenistan, and the southern African commodity exporters of Angola, Namibia and Mozambique.

Third, in the last 10 years, there has been a particularly high number of violent social and political upheavals in all world regions, from Afghanistan to Mali to Venezuela. The Arab world has been deeply affected by this phenomenon since the beginning of 2011. An entire region has been destabilized, and growing political polarization has led to civil wars in Libya, Syria and

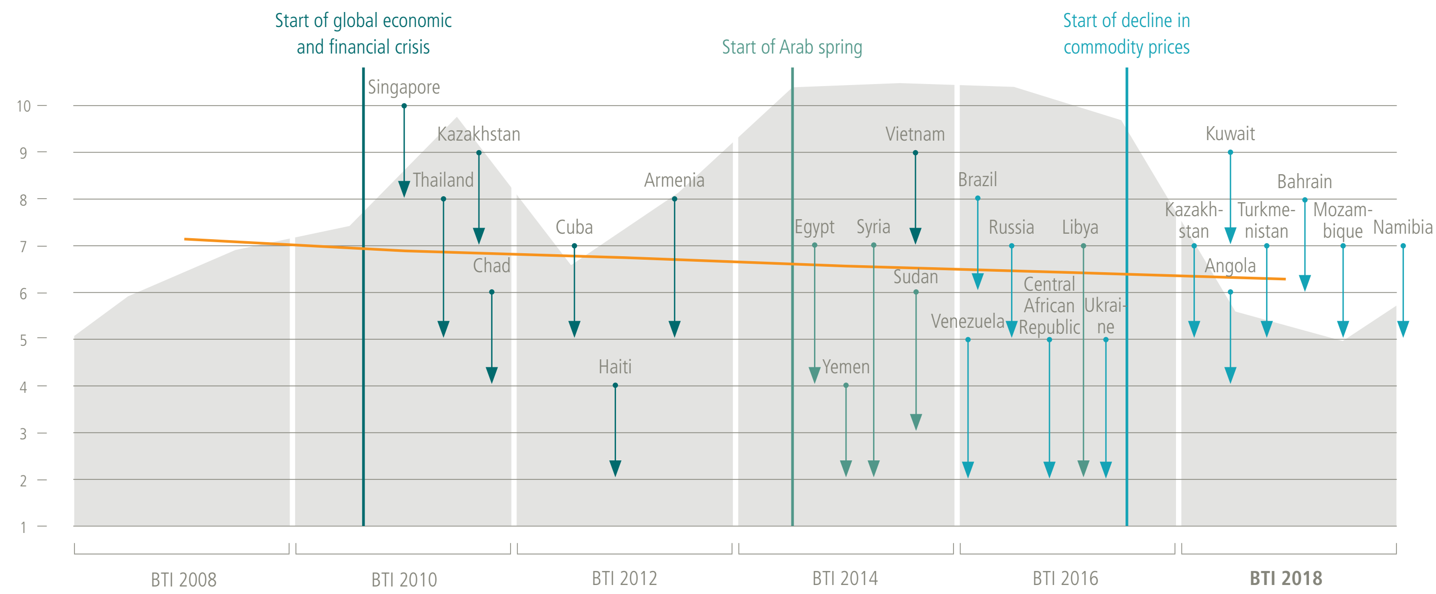


now Yemen, which have paralyzed economic development and destroyed infrastructures. Only a few countries, such as Madagascar and Ukraine, have succeeded in recovering stability and renewing economic growth following severe political crises. In other countries, such as Bahrain and Nigeria, by contrast, a years-old combination of militant polarization, religious divides and poor governance took deeper root, leading not to sudden collapse, but rather to a steady – but just as devastating – erosion of economic stability and performance.

Many countries have found themselves in perpetual crisis mode in reaction to external shocks or due to domestic destabilization. The decline in average global scores for economic transformation has accordingly continued. To be sure, the current deterioration of 0.05 points for the 119 countries that have been surveyed continuously since the BTI 2006 is in itself no cause for alarm. But, on the other hand, this is now the fifth time in succession that this BTI score has fallen, from 5.74 in the BTI 2008 to today's 5.54. At this level of aggregation, a decline of 0.20 points within 10 years hardly represents a crash, but underscores nevertheless a significant thinning of the global market-economic fabric.

The present economic-transformation data clearly shows that the end of the last decade marked a turning point. Until then, thanks to the rapid expansion of world trade, a clear rise in most BTI economic indicators was evident. However, economic and social performance indicators started to fall beginning with the BTI 2010, declining successively in the subsequent years to their current, in some cases significantly lower levels. Looking

Three crisis factors



BTI average global scores for the criterion "Economic performance" (125 countries) Crude oil price, annual average in $10 increments (World Bank)

Drop in criterion score "Economic performance" of 2 or more points (only countries without full subsequent recovery included)

back, this again illustrates the apogee of globalization in the years before the economic and financial crisis, but also clearly shows the deep break in economic transformation produced by the collapse of the U.S. investment bank Lehman Brothers in September 2008. In this respect, BTI 2008 scores, coming on the eve of the economic and financial crisis, marked both the high point and end point of a lengthy phase of global economic growth, and therefore serve in what follows here as a positive benchmark and point of comparison.

One-fifth up, two-fifths down

In only 27 of the 125 countries that have been continuously surveyed since the BTI 2008 has the overall score for economic transformation improved with a gain of at least 0.25 points since that time. The largest gains registered have been in those countries with a low baseline, such as Bhutan (+2.25), Côte d'Ivoire and Liberia (each +1.43), and Rwanda (+1.61). However, China (+0.50), one of the world's largest and most important economies, also belongs to this group. Beyond this, among those making significant economic-transformation progress of at least 0.50 points, just three countries – Peru, the United Arab Emirates and Uruguay – have an advanced market-economic development status, as categorized by the BTI.

In the last two years, 16 countries have improved by more than 0.25 points, with Argentina (+0.79) and Ukraine (+0.82) showing particularly strong gains. However, in neither country has the improvement in economic-transformation status yet been sufficient to balance out the losses recorded in the last 10 years.

In Argentina, under President Mauricio Macri (elected in November 2015), only the broadest market-distorting regulations regarding currency and exchange-rate restrictions, the restrictive foreign-trade provisions and sprawling subsidies, successively introduced since 2002 by the previously governing Peronist governments, were corrected. However, progress in the area of private-enterprise and market-economic regulation has yet to be accompanied by an improvement in benchmark macroeconomic or social indicators. Instead, high inflation rates, combined with energy-sector subsidy reductions that drove up gas and electricity prices by more than 700%, severely strained not only private budgets, but the budgets of small and medium-sized firms in particular. In a context of opening markets and increased competition, medium-sized firms in particular struggled to cope with a rapid decline in domestic demand, often responding with layoffs.

In contrast to the Argentine experience, the Ukrainian economy – previously on the verge of collapse following the Euromaidan protests and Russia's intervention – returned to moderate growth after years of recession, with inflation rates subsiding to a low level. In addition to significantly stronger investment activities and a slight expansion of domestic demand, numerous reforms in the public-procurement sector, the banking and energy sectors, and the tax system contributed both to the creation of a more stable market-economic regulatory framework and to the economic recovery more generally.

Conversely, economic status has deteriorated over the last 10 years by at least 0.25 points in 56 countries and, thus, in 45% of the country sample. Setbacks have been particularly ominous in the Arab countries experiencing civil wars – Libya (–2.86), Sudan (–1.54), Syria (–2.79) and Yemen (–2.29) – as well as in Venezuela (–1.50). The fact that this list of countries showing decline includes Argentina, Brazil, India, Mexico, Russia, South Africa, South Korea and Turkey, or nearly all the economic heavyweights among the G20 states of the global South and East, as well as additional important anchor countries, such as Egypt, Nigeria and Thailand, is worrisome.

Regression in economic-transformation status by more than 0.25 points was evident in 24 countries over the past two years, with eight countries showing a decline of more than 0.50 points. Neither civil-war-torn Yemen, nor the energy-price-dependent and insufficiently diversified Azerbaijan and Kuwait, nor poorly governed and economically run-down Mozambique, Venezuela or Zimbabwe are surprises on this list. However, Namibia (–0.86) and Turkey (–0.57), two formerly rather stable countries, also number among the countries showing the sharpest declines. Each of these is emblematic of disturbing regional trends.

The Namibian SWAPO leadership is representative of a series of government parties in southern Africa that still enjoy strong voter support and safe parliamentary majorities due to broad legitimacy won in the course of decolonization, the fight for independence or an anti-apartheid movement, and that often rely on clientelism in governing their countries. In the last 10 years, under the Namibian SWAPO, the Democratic Party in Botswana, the FRELIMO in Mozambique, and the ANC in South Africa, at times massive declines in administrative and budgetary efficiency have taken place, paired with reduced punishments for the abuse of office and an overall diminished rule of law. The shortcomings of Namibian governance in the economic realm, including a bloated administration, an overextended state budget and the failure to engage in consensus-oriented agricultural reform, have become particularly clear in times rendered economically difficult by the steady decline in the world market price for uranium, a persistent drought, and declines in demand and investment from the oil-rich and also crisis-struck neighboring country of Angola.

Turkey, which for many years served as the Middle East's engine of growth, has a still larger problem of leadership. Much like the Namibian SWAPO, the Turkish AKP has played a significant part in the country's democratization and liberalization. However, the leadership role thus obtained enabled it to construct new clientelistic networks, and President Recep Tayyip Erdoğan has sought to defend this position of power in increasingly paranoid ways against Turkey's so-called internal and external enemies. Many economic-transformation setbacks of the last two years are attributable to the government's harsh reaction to the July 2016 coup attempt and the proclamation of a state of emergency. Since then, observers have noted significant deterioration particularly in the conditions for private enterprise, with effects ranging all the way to expropriations targeting businesspeople allegedly critical of the government. The slump in tourism has also put a strain on economic performance.

The importance of good economic governance

The negative trends at the level of average global economic-transformation scores, as well as at the country level, are also confirmed with regard to the BTI's designated categories of economic development. In the BTI 2016, 30 countries were categorized as developed or at least as functioning market economies, thus fulfilling most aspects of a socially inclusive and sustainable market economy. This group is today diminished to 26 countries.

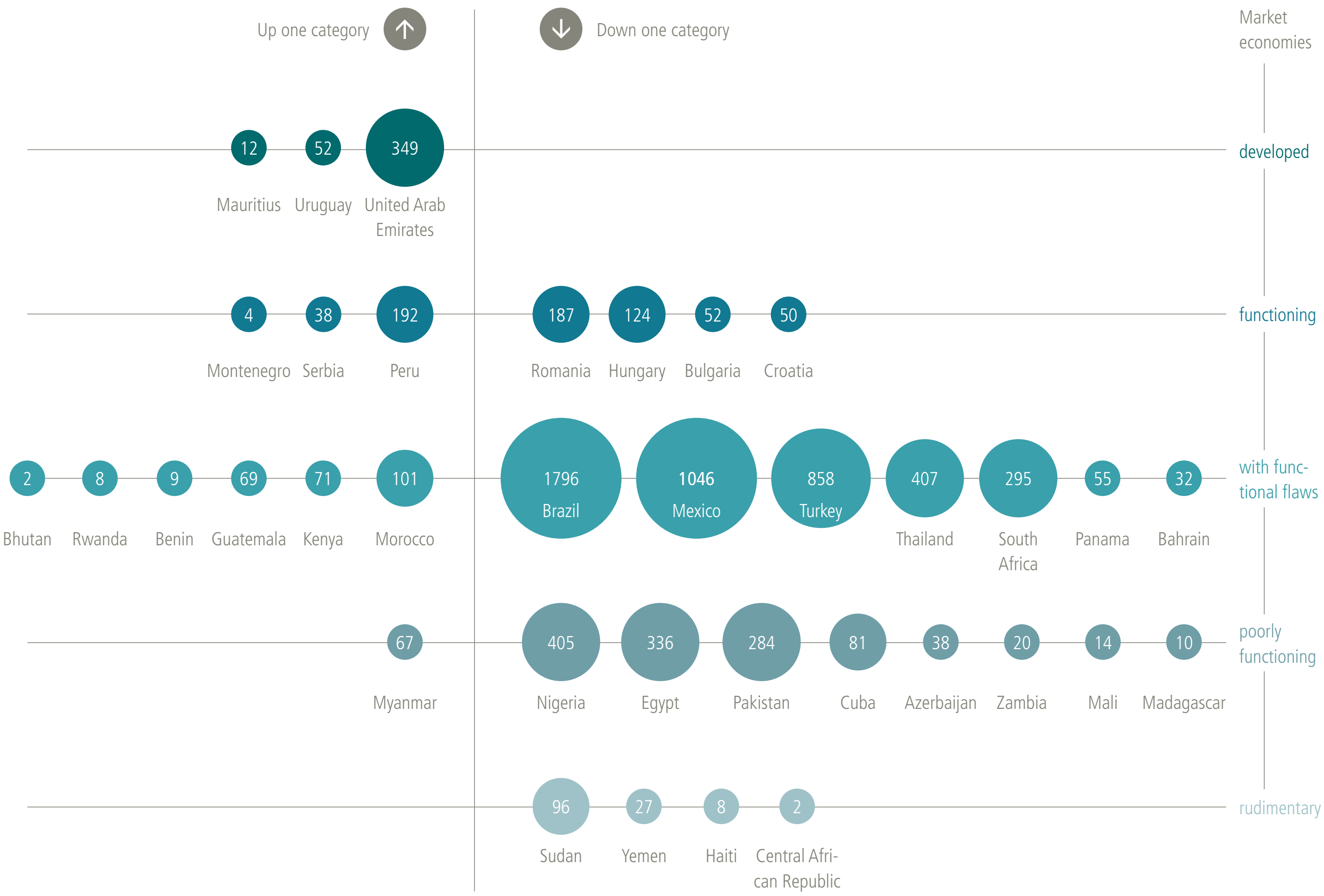
However, particularly given the crisis-inflected character of recent global economic trends, the remaining one-fifth of well-scoring economies still show a considerable degree of economic-policy steering capability. Mauritius, a country that stands out largely as an exception within Africa, has even risen for the first time into the small group of 15 developed market economies. Thanks to political stability and a flexible, long-term-oriented economic policy, the island country has succeeded in becoming a preferred destination for foreign investors and in targeting the development of strategically important economic sectors. The consistent implementation of the 2015–2019 government program, which aims at socially inclusive and sustainable development in cooperation with the United Nations through the Sustainable Development Goals (SDGs), has been critical in enabling the improvements seen today.

In the last 10 years, Montenegro, Serbia and Peru have climbed into the group of countries regarded as functioning market economies. The two southeast European countries have undertaken many reform efforts in the context of EU accession negotiations, and have clearly improved institutional configurations and guarantees in the organization of market and competition systems, especially in the areas of anti-monopoly policy, the dismantling of trade barriers, and the banking system. In Montenegro, remaining weaknesses include an immense informal sector, widespread corruption and organized crime, and a worrisome level of national debt. In Serbia, where the role of the private sector has been substantially strengthened, the privatization of unproductive state enterprises remains sluggish and inefficiency persists in the heavily bloated state administration. Peru has improved its economic-transformation status primarily through an economic policy oriented more strongly toward social inclusion and sustainability. Social programs that are professionally run and aimed particularly at the disadvantaged highland regions have in this regard contributed to a decline in the poverty rate, from nearly 55% to just over 20%, in the course of 15 years.

In contrast to these gains, however, there have been considerable economic-transformation setbacks in the G20 countries of Brazil, Mexico, South Africa and Turkey, as well as in Bahrain, Panama and Thailand, leading to a categorization of these countries as market economies with functional flaws. Panama represents something of an exception among these countries, as a slight deterioration in the organization of market and competitions systems, due in part to lower banking-system scores associated with the Panama Papers, were sufficient to prompt its category devaluation. By contrast, economic-transformation status in all other countries in this group has declined massively in recent years, primarily as a consequence of failings in governance.

In Bahrain, Brazil and Mexico, reduced commodity income has put pressure on state finances, and economic growth rates have rapidly declined. However, the massive transformation setbacks in these three countries cannot be attributed solely to these developments. Declining export incomes have simply exacerbated circumstances of crisis triggered by other, politically induced shortcomings in governance. In Bahrain, for example, these failings in governance involve extreme political

Decline of economic heavyweights



Change in overall status categories for economic transformation between the BTI 2008 and 2018. The bubble size of the countries corresponds with the respective GDP in millions of current US dollars (World Bank data).

polarization and massive discrimination waged against the country's Shi'ite majority. In Brazil, such failings are associated with rampant corruption and a crisis of trust in politics, whereas in Mexico, the government's failure to stop a murderous drug war has undermined stability and the rule of law.

South Africa, Thailand and Turkey illustrate the serious consequences of poor economic governance particularly vividly.

In South Africa, the Zuma government broke its promise to introduce fundamental economic reform aimed at overcoming mass poverty and high unemployment rates. The severe social tensions have unsettled potential investors, while the president and his followers are apparently highly corrupt, and the influential Gupta family seems to dictate even the filling of cabinet positions. A miserable education system along with erratic currency and financial policies obstruct opportunities for sustainable economic development.

Thailand, like Turkey under President Erdoğan, shows a marked degree of political polarization. Here, too, a military coup in 2014 – this one successful – represented a break. Like Turkey, Thailand has also witnessed a strong decline in tourism as a consequence of domestic political tensions, and its external trade relationships have suffered, as demonstrated by the breakdown of free-trade-agreement negotiations with the European Union. Under the junta's rule, the organization of market and competitive systems has in recent years been steadily watered down in favor of the military-economic power elite. A lack of transparency and accountability facilitates cronyism and self-enriching cliques of followers. The war against corruption declared by the military has little credibility, as the military and police are the most corrupt institutions in the eyes of most Thais.

The group of countries that have been downgraded in the last 10 years to the category of market economies with functional flaws vividly illustrates the fact that global economic problems inevitably explain only a portion of economic-transformation difficulties. For example, the United Arab Emirates, just like Bahrain and Mexico, had to cope with the fall in oil prices, and the significantly smaller economy of Uruguay was affected, just like Brazil, by the decline in international demand (and additionally by its larger neighbor's economic downturn).

The UAE is the only country to have achieved the maximum of 10 points in the BTI 2018 with regard to economic performance. With a long-term-oriented development strategy and open trade regime, effective social safety nets, and an education system aligned with the needs of the economy, the country succeeded in cushioning the shock of the energy-price decline. In recent years, the country's dependence on energy exports has been purposefully reduced, with the goal of diminishing the oil sector's share in the overall economy to just 5% by 2021.

In Uruguay, the left-wing Frente Amplio governing coalition has succeeded since 2005 in strengthening the economy with step-by-step structural reforms, while also managing to reduce the national debt, attract more direct investment and attain higher growth rates. At the same time, poverty has been successfully fought, and the unemployment rate reduced. Even if – as in many Latin American countries in recent years – declining demand has significantly curtailed the country's economic growth rate, Uruguay has achieved a high degree of social inclusion by regional standards as well as a stable market-economic order.

These positive developmental examples underscore the fact that external shocks as such should not always be held responsible for disruptive economic-transformation processes. Far more critical is the quality of economic governance – that is, the capacity of a given government to strengthen market-economic institutions over the long term; to counteract the concentration of market power by cartels, monopolies and elite networks; and to ensure a socially inclusive policy regime. Some economic heavyweights have not been successful in these tasks in recent years.

The group of countries that fail to qualify either as developed or at least functioning market economies has thus grown to four-fifths of the total for the first time in BTI history. Moreover, another worrisome high point documents the negative impact of militant extremism, religious fanaticism and political violence, the third above-noted symptom of crisis. The BTI 2018 today categorizes 13 countries as rudimentary market economies with hardly any economic order in place. While this group has grown steadily in recent years, it has reached a new high, and today represents 10% of the overall country sample.

Grave deficiencies, economic and social

The steep declines registered in economic-transformation status since the BTI 2008 are primarily due to a significantly lower level of economic performance (–0.95), and an accompanying fall in macroeconomic stability (–0.57). Economic performance – that is, the overall view of relevant economic-performance indicators of economic growth, unemployment, inflation, trade balance, indebtedness and investment rates – has declined further in the last two years as a global average of all 129 BTI countries. Specifically, 20 countries succeeded in improving their economic performance in the last two years, while 41 countries show what are in some cases notably weaker benchmark economic data.

The long-term observation is even more daunting. Overall, economic performance has declined in 71 countries since the BTI 2008 and improved in only 17 countries – and, of these, improvements have been significant only in Bangladesh, Bhutan, Côte d'Ivoire and Togo (each +2). A similar if not quite so drastic ratio (62 deteriorations, 23 improvements) also holds for macroeconomic stability.

Declines in economic performance and macroeconomic stability were borne in many countries on the backs of the populations' low-income strata. The level of socioeconomic development, always the biggest point of vulnerability of economic transformation, has once again declined by 0.25 points in the last decade, and has shown particularly strong deteriorations in the last two years. Poverty and inequality have worsened in 41 countries since the BTI 2008, and have been ameliorated in only 17 countries. In this regard, both core social problems are implicated: the dismally high degree of social exclusion that has steadily expressed itself in the BTI data, and the further intensification of economic marginalization seen today.

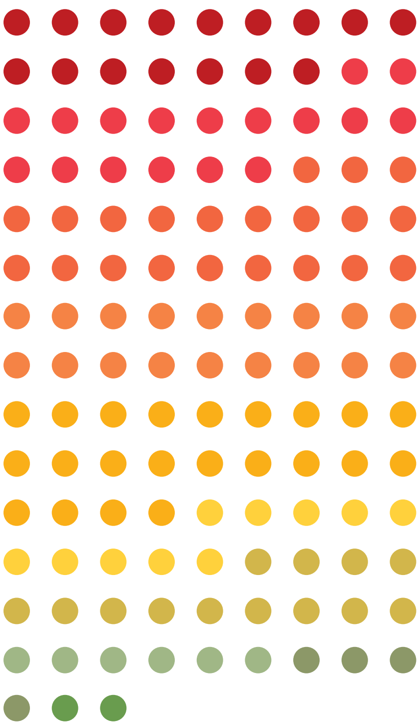
A total of 72 countries, or more than half of the nations reviewed in the BTI, receive only four points or less on a 10-point scale with regard to their level of socioeconomic development. In these countries, 40 of which are on the African continent, poverty and inequality are strongly pronounced, persistent and evidently structural in nature. Conversely, barely a fifth of all countries show a level of socioeconomic development of seven points or more, whereby large portions of the population are not excluded from societal participation due to poverty or inequality. These two key figures – of 70 very poor and unequal countries, and 25 socially inclusive countries – have not changed in the course of the last 10 years.

However, social regression is more evident in the group of countries at a middling level of development, with five (e.g., the Philippines) or six (e.g., Serbia) points. Here, the distribution of countries has clearly shifted in the direction of a greater marginalization. While the BTI 2008 still showed more countries with six points than with five points, in the BTI 2018, there are only 10 countries in the upper-middle group as opposed to 22 countries in the lower-middle group. In the last 10 years, no country has risen into the somewhat more inclusive middle group; by contrast, seven of the countries previously categorized at level six have lost at least one point.

The causes here range from state collapse (Libya), growing poverty and refugee crises (Lebanon) and a high degree of social inequality (Panama) and discrimination (Turkey), to recession (Jamaica) or a pronounced gap between regions (Colombia, Indonesia). In addition, Bahrain and Oman have seen their scores fall all the way from seven to five points. In the case of Bahrain, the massive discrimination waged against Shi'ites accounts for this decline, while a rapid growth in inequality is to blame for Oman's falling scores. To be sure, the country-specific causes in the cases sketched here are too varied to be able to speak explicitly of a uniform trend. However, it remains clear that the number of countries above the middle point of the 10-point BTI scale has declined from 43 to 35 in the course of a decade.

The degree of poverty and inequality has increased in 10 countries, although at very different levels. Small increases in social exclusion are evident in Croatia, Kuwait and Uruguay, even though all three countries remain in the top fifth of all surveyed countries with regard to their level of development. More serious, by contrast, is the fact that social exclusion in South Africa has worsened due to the high unemployment rates, despite moderate successes in combating poverty and (still extremely serious) inequality. Meanwhile, socioeconomic declines in Azerbaijan, Oman, Tajikistan, Turkmenistan, Venezuela and Zimbabwe have ultimately been caused by dif-

Despite modest improvements in education and welfare, more countries face widespread poverty and structural exclusion

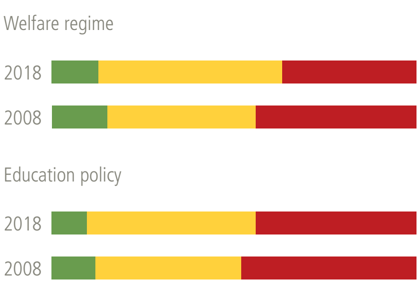


Only a small number of countries achieve a high level of socioeconomic development.

Color code (top and bottom):

- (10–8 points, positive)
- (7–5 points, average)
- (4–1 points, negative)

Slight improvement of welfare regime and education policy during the last 10 years.



ferent degrees and combinations of recession due to slumping commodity prices, blatant inequality, elite-controlled business networks and negligent mismanagement. Poor economic governance – whether due to a lack of economic diversification or to corrupt practices of the elite – thus also plays a decisive role here in the socioeconomic downturns.

State investments in the education sector and the welfare regime are among the primary political means of countering erosion in a country's socioeconomic-development level. Here, too, the economic governance of most developing and transformation countries is convincing to only a limited extent. Four-fifths have persistently neglected their education systems over the last 10 years. At most, it is a positive sign that, as a global average, government efforts have not let up in the face of declining growth rates and tight budgets.

However – and this is the greatest positive surprise in these times of crisis – welfare regimes have registered a slight overall improvement, both with regard to equality of opportunity and social safety nets. In 62 countries, policymakers now focus more strongly on social inclusion than they did 10 years ago. This is particularly evident in extremely poor but reform-minded countries, such as Guinea, Liberia and Myanmar, but also in states such as El Salvador, Mongolia and Rwanda, where governments feature a strong sociopolitical agenda. Investment in social safety nets has, on average, improved in democratically governed countries, with an increase of 0.40 points in comparison to the BTI 2008, while authoritarian governments have shown little change in their scores from 10 years ago.

What about authoritarian reform successes?

However, there are examples of success among authoritarian reformers, specifically in connection with education. While the democratically governed countries consistently score markedly better than the authoritarian governments across all economic indicators, the gap in the area of education is the smallest, and has become still smaller in recent years, driven by education-policy successes in countries such as China, Jordan, Kuwait and Rwanda. Even the global regressions in the level of socioeconomic development can be traced – at least as a long-term trend – to higher poverty and inequality levels in democracies.

Given some impressive development successes among authoritarian-governed states (e.g., China's significant reduction in its poverty rate), it has been increasingly asked in recent years whether autocracies, with their lower degree of political participation and high core-state implementation capacity, might be particularly capable of ensuring economic growth and social equality through market-economic development combined with strong state-planning characteristics. Asian models (e.g., those of China, Malaysia and Singapore) are often highlighted here as examples of how rising social tensions can be mitigated through long-term government planning and implementation, even though this comes at the cost of political freedoms. Rwanda's Vision 2020 program, which is strongly supported by the international donor community, has shown notable successes in the education and health sectors as well as in curbing population growth.

Do these positive development examples testify to the advantages of having an autocratic, strictly managed development model for all transformation countries? Three basic observations can be made in this regard.

First, while it is correct that there are a few successful modernizing dictatorships, this list has become shorter over the past few years. Among the countries so designated, only Malaysia, Qatar, Singapore and the United Arab Emirates were able to retain a place in the BTI 2018's top group of 26 developed or functioning market economies. Gulf states such as Bahrain, Kuwait and Oman, by contrast, have fallen out of this group due to a lack of diversification or extensive mismanagement, and now show clear functional flaws, including severe slumps in economic performance. Thus, the list of four developed or at least functioning authoritarian showpiece economies is rather short, even when additionally considering the developmental dictatorships working to catch up from the middle (China) or low (Rwanda) levels.

Second, the successful authoritarian modernizers also show phases of weak growth and, despite their generally positive records, run into certain limitations with regard to their adopted growth and social models, whose functioning represents the governments' only source of legitimation. Singapore, the most developed country among this group, is strongly dependent on the world market and has stood on the threshold of recession for the last two years, with rising unemployment rates and growing government deficits. For the last decade, the city-state has shown an almost continuously declining state of economic transformation (–0.68). China, which has shown the strongest catch-up growth in this group, has climbed from 52nd place in the BTI 2008 to a place today among the 30 best-scoring economies, though it now is having to deal with declining exports, serious environmental damage and rising levels of national debt. However, the export slump and declining rates of growth are also manifestations of Chinese policymakers' purposeful attempt to shift from investment-driven to innovation-driven development. Qatar, the richest by far in this group, managed to preserve its macroeconomic stability despite the collapse in oil prices thanks to its extensive reserves. However, the need for diversification has become clear given the country's first trade-balance deficit in 15 years, and for the first time even some welfare-state measures have been reduced.

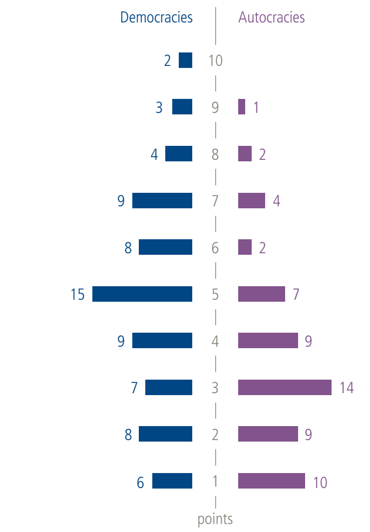
In nearly all previously economically successful autocracies, these weak or transitional phases have led to greater inequality, a growing incidence of office abuse, and increasing repression. The greater societal inequality can be traced to different and often overlapping causes, whether these be regional disparities, as in the case of China's East-West gap; ethnically conditioned and structurally anchored features, as in Malaysia or Rwanda; or the influence of a small, disproportionately profit-monopolizing leadership class, as in most Gulf states. Some governments, such as those in China and Singapore, have recognized just how potentially socially explosive such inequality could become, and have sought – with only modest success so far – to counteract this trend.

In addition, many modernizing dictatorships have had to grapple with the severe consequences of clientelism and opaque practices, as cases of corruption – some of them quite severe – have been made public. Singapore, though it remains a global leader in terms of anti-corruption policy, has seen the dynastic governing elite around the Lee family solidify. And Temasek Holdings, a state-owned conglomerate under the leadership of the prime minister's wife, is facing mounting questions regarding its lack of efficiency and non-transparent business practices. Meanwhile, Malaysia was shaken by a high-level corruption scandal in which the prime minister was accused of transferring around $700 million from the 1Malaysia Development Berhad state development fund to his private account. In China, international media reports related to the publication of the Panama Papers have offered a look at the enormous financial sums stockpiled by leading party cadres, including the family of state head Xi Jinping, in foreign bank accounts. Meanwhile, the country's large-scale anti-corruption campaign is likely to have had at least as much to do with party purges as with the punishment of office abuse. In Rwanda, which has seen the greatest score increases among the modernizing dictatorships, corruption proceedings against leading military figures revealed that the practices of office abuse associated with illegal mine exploitation had been known for years, but that their punishment only now appeared politically opportune.

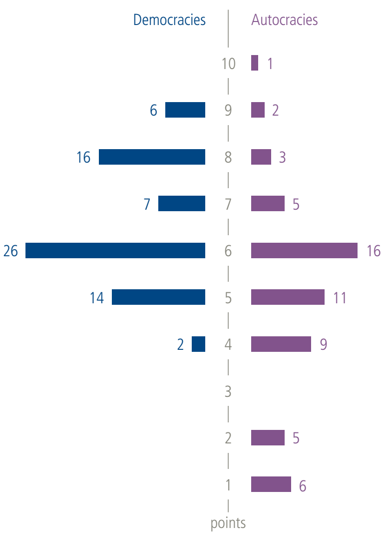
The third observation concerns the comparison of all democracies and autocracies surveyed by the BTI with regard to economic and social performance, which comes out extremely unfavorably for the latter group of countries. To be sure, while only 26 of the 71 democracies have attained a middling or good degree of social inclusion of six points or more with regard to their level of socioeconomic development, this is true only in a much smaller group of nine out of 58 autocracies. In addition to Malaysia, Qatar, Singapore and the UAE, Belarus, Cuba, Kuwait, Russia and Thailand also stand out as positive examples here. The system comparison yields similar results with regard to economic performance, which generally receives significantly better evaluations. Here, 55 of the 71 democracies achieve satisfactory to good core economic scores of six points or more, as compared to just 27 of the 58 autocracies.

However, this comparison is no cause for democratic triumphalism. The state of economic transformation has deteriorated – in some cases significantly – for numerous economically important democracies (e.g., Brazil,

Level of socioeconomic development in democracies and autocracies, BTI 2018



Economic performance in democracies and autocracies, BTI 2018



Hungary, Mexico, Nigeria, South Africa and Turkey), and a high degree of office abuse, blatant mismanagement and a loss of democratic quality is also undeniable in all these cases.

Another relevant question is how responsive, capable of implementation and efficient democratic decision-making processes can be in comparison with authoritarian-driven planning projects. Here, the data from the BTI governance index offer some first clues. If one examines only the 79 countries with a middling or good state of economic transformation, the average differences between the 56 democracies and 23 autocracies are smaller in the case of resource efficiency and political coordination, at 0.80 points each, than for any other governance indicator. Indeed, at a higher level of governance, authoritarian governments have the benefit of being able to deploy available resources nearly as efficiently as democratic decision-makers and to implement various political goals nearly as successfully within a coherent policy-management structure. But there remains a qualitative gap – because for every successful developmental dictatorship, such as Singapore, there are numerous democratic counterparts, such as the Baltic states, Taiwan or South Korea. By contrast, if one were to take the full BTI country sample as a basis, then the gap between all democracies and autocracies with regard to efficiency and coordination increases approximately to a full two points.

Macroeconomic stability serves to illustrate the great gap between the few well-managed and the many poorly governed autocracies, thus illuminating the question about governments' capacity to pursue an efficient, coordinated and consistent stability policy that includes debt reduction and fiscal consolidation. Only seven autocracies – China, Kuwait, Qatar, Singapore, Thailand, Uganda and the United Arab Emirates – number among the 30 most macroeconomically stable countries, while among the 31 most unstable countries, only Niger is categorized as a democracy. A nearly identical distribution emerges when assessing the efficient use of available resources and political coordination, which have significant influence on macroeconomic stability. Five autocracies (Malaysia, Qatar, Rwanda, Singapore and the UAE) are among the top 30, while only three democracies – Lesotho, Nepal and Nigeria – are to be found among the 33 most inefficient and poorly coordinated countries. Numerous country reports make reference to the economically destabilizing effect of a lack of efficiency and poor coordination in autocracies, thus suggesting at least the following conclusion: For the bottom fifth of poorly run, socially exclusive and highly corrupt states at the lower end of the BTI economy rankings, there is in fact no democratic parallel.

This is not to say that democratically governed countries, due to generally relatively free competition for voters' favor, as a rule strive to implement a more socially inclusive policy. Nor should it be argued, in turn, that a viable basis for democratic government only arises at a certain level of economic and social development. In many cases, a much more complex interplay between these two factors is likely to be at work, in addition to country-specific or global economic influences. However, against the background of performance in different political systems, it can be asserted with some certainty that, in the overwhelming majority of cases, authoritarian governance structures do not causally contribute to sustainable market-economic and socially inclusive development.

Institutional frameworks stand firm as performance falls

Against the background of the last decade's serious social and economic upheavals, it is striking that, as a global average, there has been little short- or long-term change with regard to private-enterprise and market-economic regulatory frameworks, welfare systems or sustainability regimes. Overall, frameworks for organizing the market and competition have improved somewhat worldwide thanks to clear advances with regard to banking-system reforms. It is remarkable how comprehensively and systematically banking systems have more strongly targeted international standards in the areas of capital adequacy, liquidity, independent oversight and transparency requirements. The relevant indicator here has improved more markedly than any other aspect of economic transformation (+0.58 relative to the BTI 2008).

However, problematic discrepancies are evident with regard to securing the free and fair organization of market and competitive frameworks. Although free trade and banking systems achieve relatively high scores, market-economic rule-making and anti-monopoly policy are, by contrast, less well developed. For example, according to the BTI 2018, effective and stringent procedures against monopolies and cartels (nine or 10 points) function in only 12 countries, while these protections are implemented sufficiently, if also unevenly (seven or eight points), in an additional 25 countries. Conversely, in more than half the countries surveyed by the BTI, there are either virtually no rules preventing market-power abuses and price-fixing, and thus safeguarding fair competition, or the implementation of such rules is seriously flawed or deliberately neglected.

Since low scores in the area of anti-monopoly policy (average 5.35) and particularly for anti-corruption policy (4.27) are often paired with high scores for the opening of the domestic market to the world market (6.89), it appears obvious that the elites in most countries have an interest only in certain market-economic structures. Fair competition has as little place on the government agenda as does socially inclusive economic development. In many cases, market-economic systems are established only selectively or with very consciously allowed gaps in order to bring more open economic orders into harmony with comparatively closed political systems.

Opposing trends are evident in the area of private-property regulation, too. A decade ago, property rights were better protected than was the central role of private-sector businesses in the overall economic framework. By contrast, in the BTI 2018, even in better-developed economies, opportunities for private-sector activity have expanded while private-property rights are subject to fewer protections.

More private enterprise, less legal certainty – how can we account for these different trends? For one, many governments have evidently become more skeptical toward the private sector, which they have held responsible for crises. They recognize the importance of private enterprise, but reserve the right to engage in ad hoc interventions if positive economic development is not quick enough to manifest itself. Often, policy leaves the private sector too little time for a market-driven adaptation to post-crisis conditions and, instead, all too quickly posits the presence of market failures. On the other hand, the rule of law and the protection of property rights are correlated to a strikingly high degree. This points to the importance of political-transformation processes (e.g., with regard to stateness and the rule of law) and governance quality (e.g., with regard to resource efficiency and anti-corruption policy) for socially just and sustainable market-economic development.

Economic transformation, BTI 2018

Developed market economies
Score 10 to 8

15

Czech Republic	9.64
Estonia	9.29
Taiwan	9.29
Slovenia	9.11
Lithuania	9.04
Singapore	8.89
South Korea	8.64
Latvia	8.61
Poland	8.61
Slovakia	8.57
Chile	8.54
Uruguay	8.43
UA Emirates	8.14
Qatar	8.04
Mauritius ▲	8.00

Functioning market economies
Score < 8 to 7

11

Romania	7.96
Costa Rica	7.93
Croatia	7.79
Hungary	7.71
Botswana	7.57
Bulgaria	7.50
Malaysia	7.21
Montenegro	7.14
Peru	7.11
Serbia	7.11
Macedonia	7.07

Market economies with functional flaws
Score < 7 to 5

53

Brazil ▼	6.93
Panama ▼	6.93
Turkey ▼	6.79
China	6.75
Kuwait ▼	6.71
Sri Lanka	6.68
Philippines	6.64
Albania	6.61
Argentina	6.54
Bosnia a. Herzegovina	6.46
El Salvador	6.46
Colombia	6.43
Mexico	6.36
India	6.32
Jamaica	6.32
South Africa	6.32
Thailand	6.18
Ukraine	6.18
Jordan	6.07
Russia	6.07
Armenia	6.04
Georgia	6.04
Paraguay	6.04
Tunisia	6.04
Bahrain	6.00
Indonesia	6.00
Kosovo	5.96
Saudi Arabia	5.96
Bhutan	5.93
Dominican Republic	5.93
Uganda	5.89
Oman	5.86
Mongolia	5.79
Bolivia	5.71
Moldova	5.71
Rwanda	5.71
Kyrgyzstan	5.64
Bangladesh	5.61
Ghana	5.61
Kazakhstan	5.61
Ecuador	5.54
Namibia	5.50
Vietnam	5.46
Lebanon	5.43
Morocco	5.43
Kenya	5.36
Nicaragua	5.36
Senegal	5.25
Algeria	5.21
Honduras	5.21
Belarus ▲	5.11
Guatemala	5.11
Benin	5.00

Poorly functioning market economies
Score < 5 to 3

37

Côte d'Ivoire	4.96
Tanzania ▼	4.93
Zambia ▼	4.89
Egypt	4.86
Papua New Guinea	4.86
Azerbaijan ▼	4.82
Laos	4.79
Lesotho ▼	4.79
Togo	4.71
Madagascar	4.68
Liberia	4.57
Cameroon	4.54
Malawi	4.54
Burkina Faso	4.50
Guinea	4.50
Cuba	4.46
Cambodia	4.43
Mali	4.32
Pakistan	4.32
Uzbekistan	4.29
Mauritania	4.21
Burundi	4.14
Mozambique	4.14
Nepal	4.14
Sierra Leone	4.14
Niger	3.96
Iraq	3.89
Nigeria	3.86
Angola	3.68
Ethiopia	3.64
Tajikistan	3.64
Rep. Congo	3.50
Turkmenistan	3.43
Iran	3.39
Myanmar ▲	3.25
Chad	3.18
Venezuela	3.14

Rudimentary market economies
Score < 3

13

Centr. African Rep.	2.96
Afghanistan	2.89
Haiti ▼	2.89
Zimbabwe ▼	2.82
DR Congo	2.79
Libya	2.64
Sudan	2.32
South Sudan	1.93
North Korea	1.71
Yemen ▼	1.64
Eritrea	1.57
Syria	1.39
Somalia	1.25

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

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