

4. Summary of economic and democratic reforms

Table 9 and *Figure 10* provide an overall picture of the status of the economic and democratic reforms in the transition countries in 2001. The economic reform ratings represent an equally weighted average of all eleven EBRD transition indicators (that is, from both stages, *Tables 1* and *2*). The democratic reform ratings are calculated from Freedom House's scores shown in *Table 6*. The six democratization components of *Table 6* are averaged for each country, and then compressed into a one-to-five scale with five representing the most advanced (or most free) to better align with the economic reform scale.

Two key observations emerge. First, the Northern Tier CEE countries remain distinctly out front of the rest of the transition countries in progress towards economic and democratic reforms. *Figure 10* suggests that there are broadly two groups of transition countries differentiated by reform progress, a "well-defined" or closely clustered Northern Tier CEE group and the rest (which are characterized by very large differences in reform progress among them). While reform progress in the Southern Tier CEE countries is generally more advanced than that in Eurasia, there are exceptions. Bosnia-Herzegovina and in some respects Yugoslavia have reform profiles closer to Eurasian norms than those of the Southern Tier CEE countries; reform progress in Georgia and Moldova more closely resembles Southern Tier CEE standards than Eurasian. Of the three subregions, the variation in reform progress is greatest in Eurasia, and least in the Northern Tier CEE region.

Second, *Table 9* shows that while the average ratings of economic reforms and democratic freedoms are virtually the same for the transition region as a whole ("2.8" for economic reforms vs. "2.7" for democratization), the range in progress is significantly greater in the case of democratic reforms. The reform leaders have democratic freedoms roughly on a par with some Western democracies, while the democratic laggard, Turkmenistan, scores among the least democratic countries worldwide. However, even the Northern Tier CEE countries continue to lag considerably behind the EU in economic reforms. This is particularly evident in the second stage economic reforms.

Reform trends in the medium term. Comparing the status of transition reforms in 1998 (*Figure 11*) with the most recent "snapshot" (*Figure 10*) highlights several broad trends over time. First, the reform profiles of the Northern Tier CEE countries have become increasingly similar; since 1998, Slovakia has joined the "fold", and, more generally, the differences in reform progress between the eight Northern Tier CEE countries have decreased, and have become relatively insignificant. Overall reform progress in the three or four Northern Tier CEE leaders has been modest in these four years, partly reflecting approaching "ceilings" in reforms (particularly in democratization), and partly reflecting that second stage transition reforms (particularly in economic reforms) are more difficult than those typically done in early transition years.

Second, of the three sub-regions, the Southern Tier CEE countries have made the greatest reform gains since 1997; overall, they are catching the Northern Tier CEE countries in

reform progress, and are pulling away from many of the Eurasian countries. In 1998, the Southern Tier CEE countries had a range of reform progress roughly similar to that found among the "reformers" in Eurasia. Since then, the reform profiles between the Southern Tier CEE and Eurasian countries have become increasingly distinct. The final observation follows: of the three sub-regions, reform progress since 1997 has been least evident in Eurasia, particularly in democratization.

Reform paths. *Figures 12, 13, and 14* shed light on transition reform paths since 1991.¹⁴ As shown, progress in transition reforms has generally been far from linear and steady; progress anything but a "straight line." The closest to an exception may be Poland, where reforms have moved forward steadily albeit at a declining pace. Most countries have exhibited at least temporary backsliding and/or progress in "fits and starts" at best. Slovakia is an interesting case in point. It started the transition in the early 1990s in roughly the same reform "position" as Poland's, and is today at a level close to Poland's.¹⁵ However, its route was much more circuitous, with notable (albeit temporary) backsliding in democratization on two occasions.

Nevertheless, a key distinction between reform paths in CEE and Eurasian countries follows. While most of the CEE countries have experienced some temporary reform backsliding and/or stalling, all (with one possible exception)¹⁶ have moved forward in both reform dimensions since the transition began. Progress in both economic and democratic reforms, in other words, is consistent in this group, and apparently mutually reinforcing. In contrast, while all of the Eurasian countries have witnessed gains in economic reforms since 1991, for most, this has been accompanied by regression in democratic freedoms on balance. In an important respect, a decisively different reform path has so far emerged in Eurasia, some forward progress in economic reforms alongside backsliding in democratization.

¹⁴ The method to measure reform progress in *Figures 12-14* was, out of necessity, simplified from that of *Figure 10* to capture estimates of earlier years. Democratic freedoms were calculated solely from Freedom House's civil liberties and political rights indices (*Table 5*). Fewer economic reforms indicators were used to calculate the overall rating since some (in particular, legal reforms, infrastructure, and environmental reforms) are not available from the EBRD for earlier years.

¹⁵ If 1989 is the starting point, the gains in democratization for both Slovakia and Poland are much more impressive, particularly for Slovakia.

¹⁶ While Bosnia-Herzegovina has advanced in economic reforms since the transition began, democratic freedoms are today on a par with those found in Bosnia in 1991, according to Freedom House calculations.

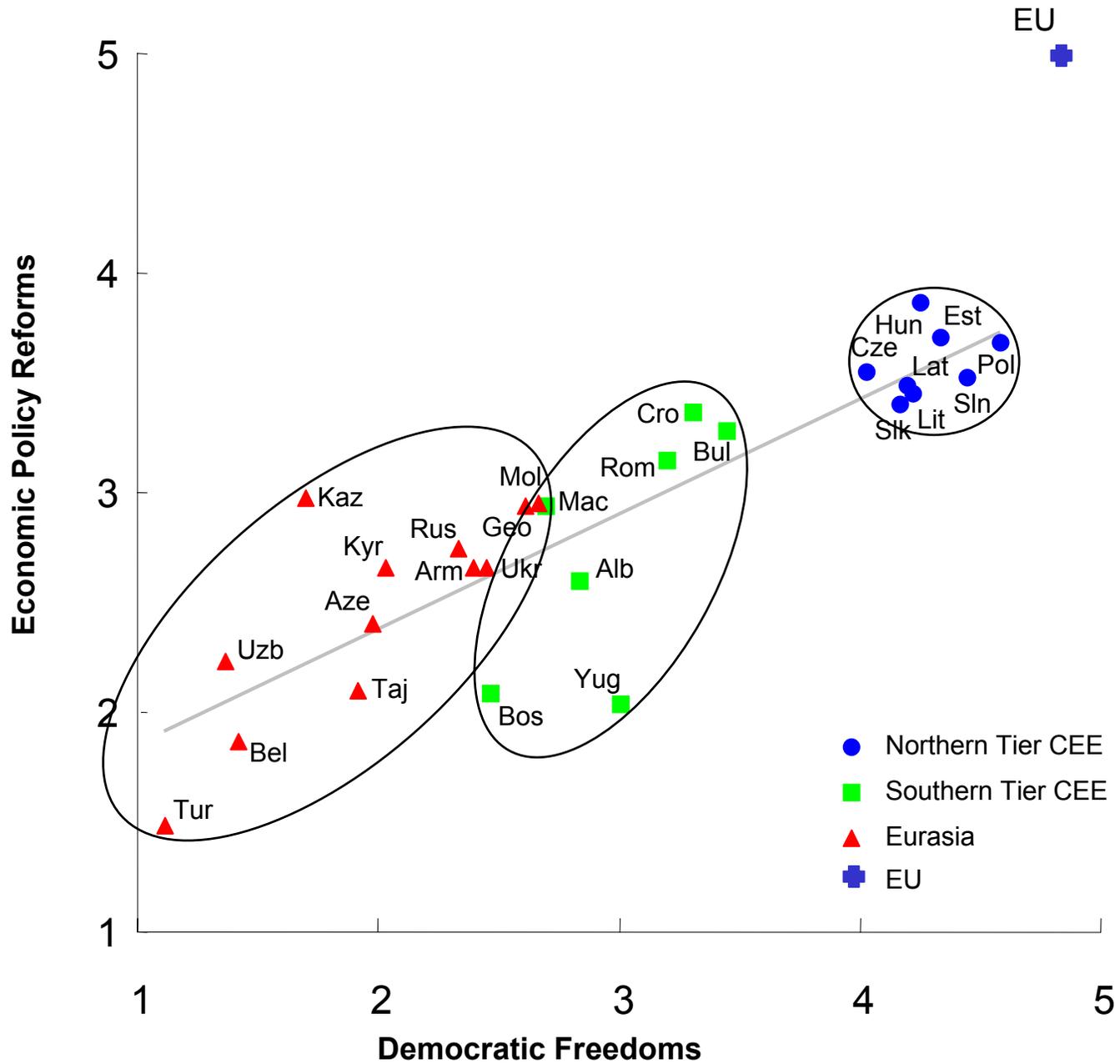
**Table 9. Economic Policy Reforms and Democratic Freedoms
in Central & Eastern Europe and Eurasia: 2001**

Economic Policy			Democratic Freedoms		
Country	Rating (1 to 5)	Ranking	Country	Rating (1 to 5)	Ranking
Hungary	3.9	1	Poland	4.6	1
Estonia	3.7	2	Slovenia	4.4	2
Poland	3.7	2	Estonia	4.3	3
Czech Republic	3.5	4	Hungary	4.3	3
Lithuania	3.5	4	Slovakia	4.2	5
Slovenia	3.5	4	Lithuania	4.2	5
Croatia	3.4	7	Latvia	4.2	5
Latvia	3.4	7	Czech Republic	4.0	8
Slovakia	3.4	7	Bulgaria	3.4	9
Bulgaria	3.3	10	Croatia	3.3	10
Romania	3.1	11	Romania	3.2	11
Kazakhstan	3.0	12	Yugoslavia	3.0	12
Georgia	2.9	13	Albania	2.8	13
FYR Macedonia	2.9	13	FYR Macedonia	2.7	14
Moldova	2.9	13	Moldova	2.7	14
Kyrgyzstan	2.7	16	Georgia	2.6	16
Russia	2.7	16	Armenia	2.4	17
Albania	2.6	18	Bosnia-Herzegovina	2.4	17
Armenia	2.6	18	Ukraine	2.4	17
Ukraine	2.6	18	Russia	2.3	20
Azerbaijan	2.4	21	Kyrgyzstan	2.0	21
Uzbekistan	2.2	22	Azerbaijan	2.0	21
Bosnia-Herzegovina	2.1	23	Tajikistan	1.9	23
Tajikistan	2.1	23	Kazakhstan	1.7	24
Yugoslavia	2.0	25	Belarus	1.4	25
Belarus	1.9	26	Uzbekistan	1.4	25
Turkmenistan	1.5	27	Turkmenistan	1.1	27
	Rating (1 to 5)			Rating (1 to 5)	
CEE & Eurasia	2.8			2.7	
Northern Tier CEE	3.6			4.4	
Southern Tier CEE	2.8			3.1	
Eurasia	2.6			2.2	
European Union	5.0			4.8	
OECD	--			4.6	

Ratings of democratic freedoms are from Freedom House *Nations in Transit 2002* (2002), and assess reforms through December 2001. Economic policy reform ratings are from EBRD, *Transition Report 2001* (November 2001), and cover events through September 2001; Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Figure 10

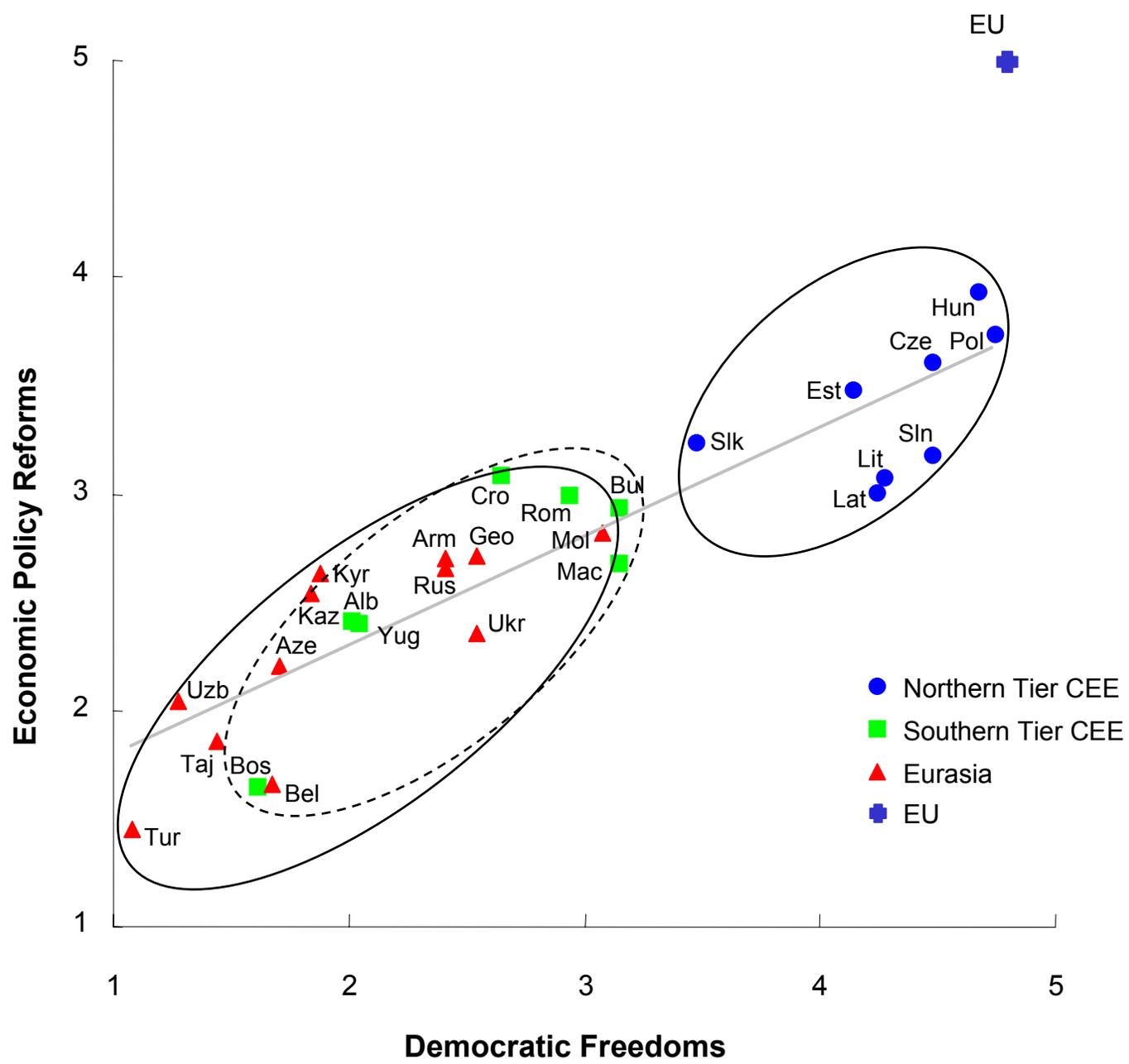
Economic Policy Reforms and Democratic Freedoms in Central & Eastern Europe and Eurasia: 2001



Ratings of democratic freedoms are from Freedom House, *Nations in Transit 2002* (2002), and cover events through December 31, 2001. Economic policy reform ratings are from EBRD, *Transition Report 2001* (November 2001), and cover events through September 2001. Economic policy reforms include price liberalization, trade and foreign exchange, privatization, legal, banking and capital markets, enterprise restructuring (credit and subsidy policy), and infrastructure reforms. Democratic freedoms include political rights (free and fair elections; openness of the political system to competing political parties and to minority group representation; governance and public administration) and civil liberties (free media and judiciary; freedom to develop NGOs and trade unions; equality of opportunity and freedom from corruption). Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Figure 11

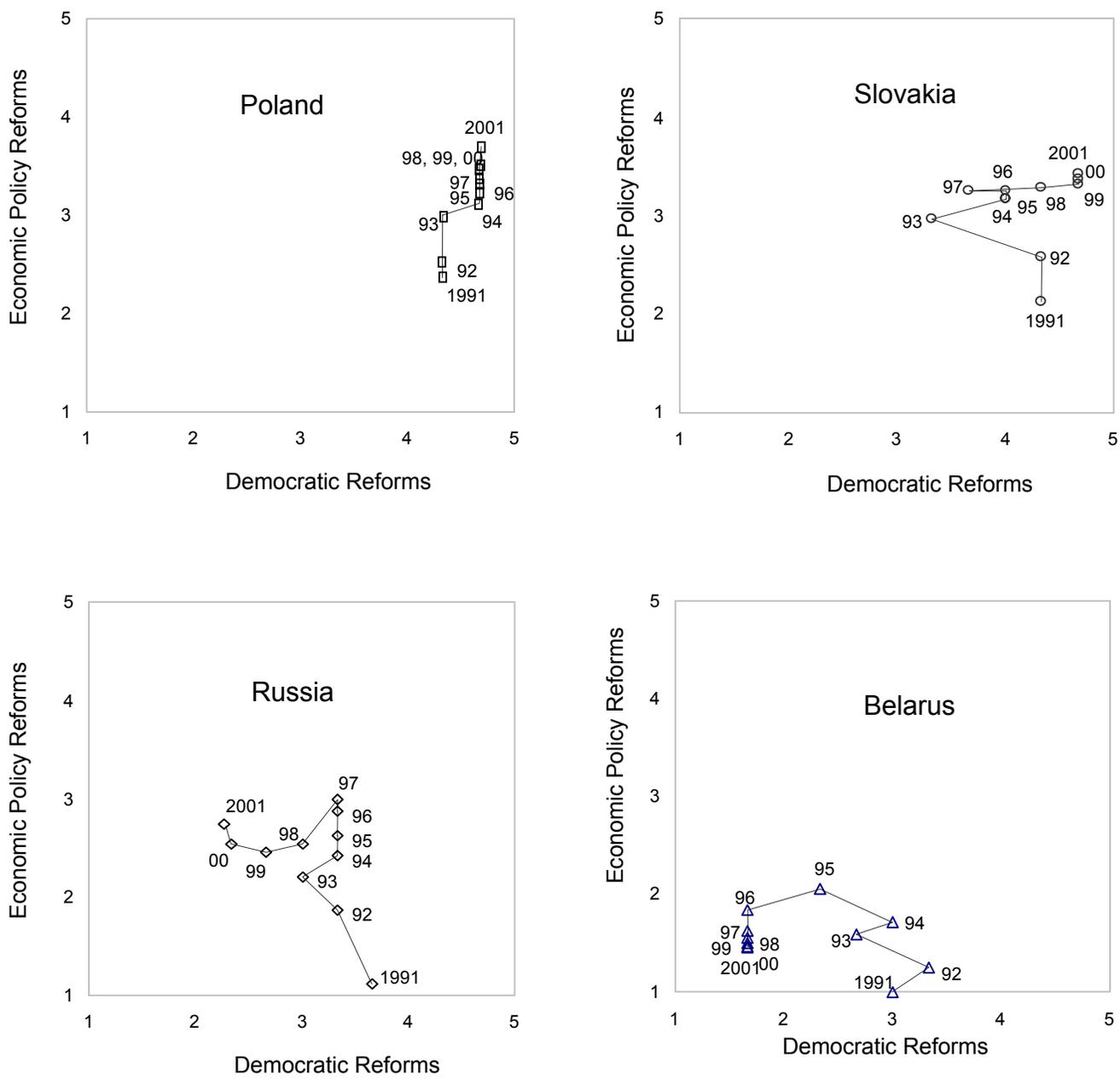
Economic Policy Reforms and Democratic Freedoms in Central & Eastern Europe and Eurasia: 1998



Ratings of democratic freedoms are from Freedom House, *Nations in Transit 1998* (October 1998) and Freedom House, *Freedom in the World 1998-1999* (June 1999), and assess reforms through December 1998. With 1 exception, economic policy reform ratings are from EBRD, *Transition Report 1998* (November 1998), and cover events through early September 1998; economic policy reform rating for Yugoslavia is from Freedom House (October 1998). Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Figure 12

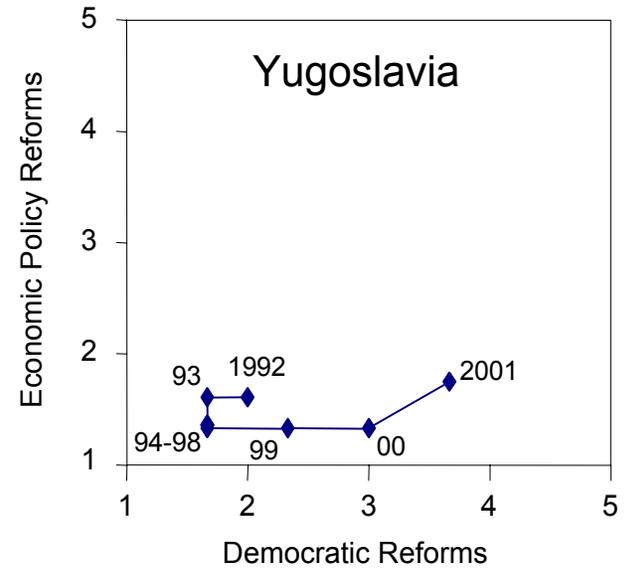
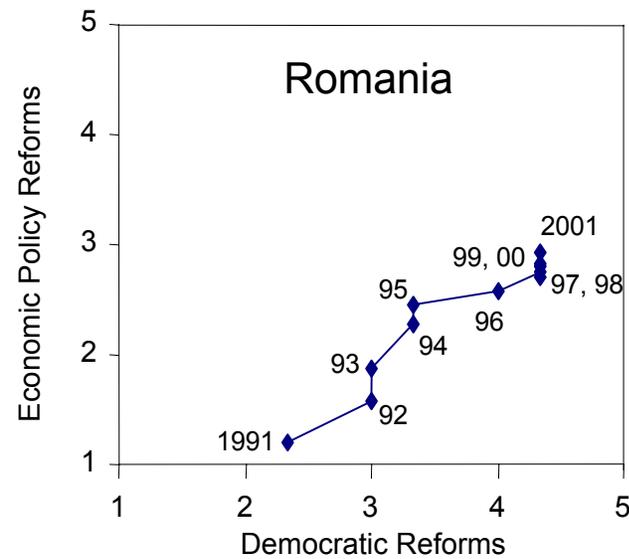
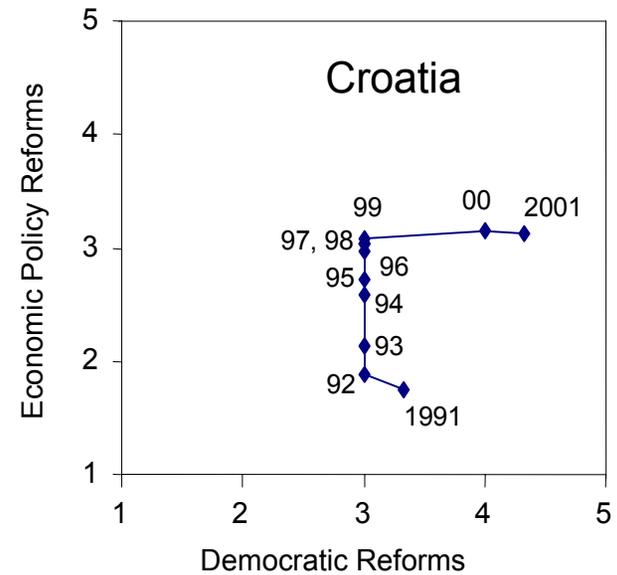
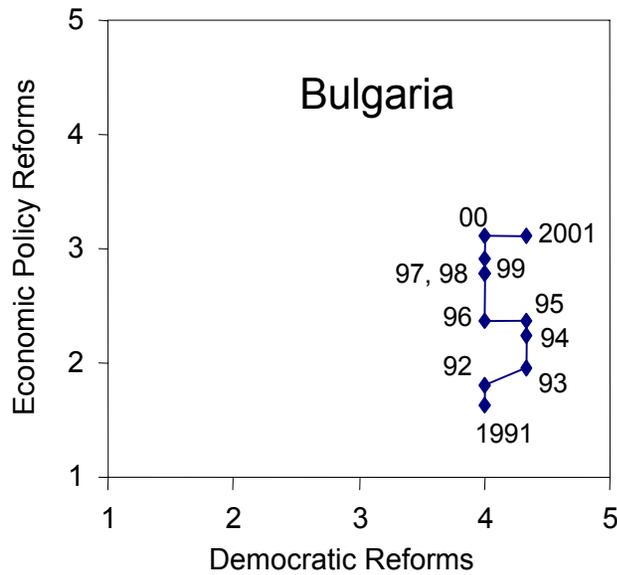
Economic Policy Reforms and Democratic Freedoms in Central & Eastern Europe and Eurasia: Selected Countries, 1991 to 2001



Ratings based on a 1 to 5 scale, with 5 representing the most advanced. EBRD, *Transition Report 2001* (November 2001); Freedom House, *Freedom in the World 2002* (2002); and (various years). Not directly comparable to *Figure 10* due to differences in methodology and data.

Figure 13

Reform Trends in the Southern Tier CEE, 1991 - 2001



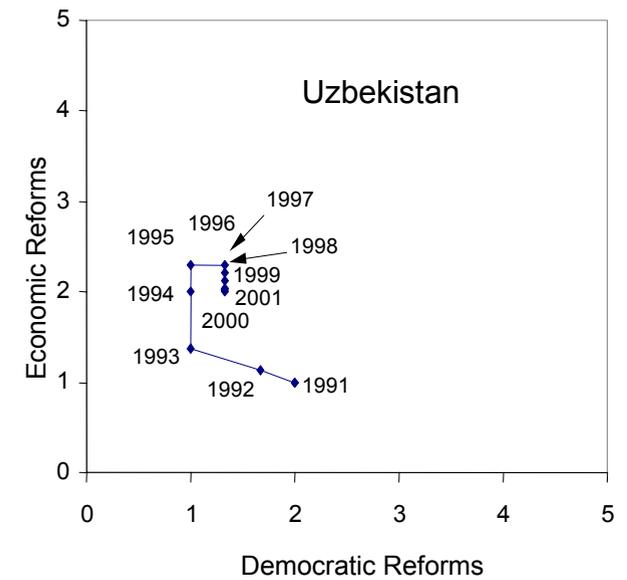
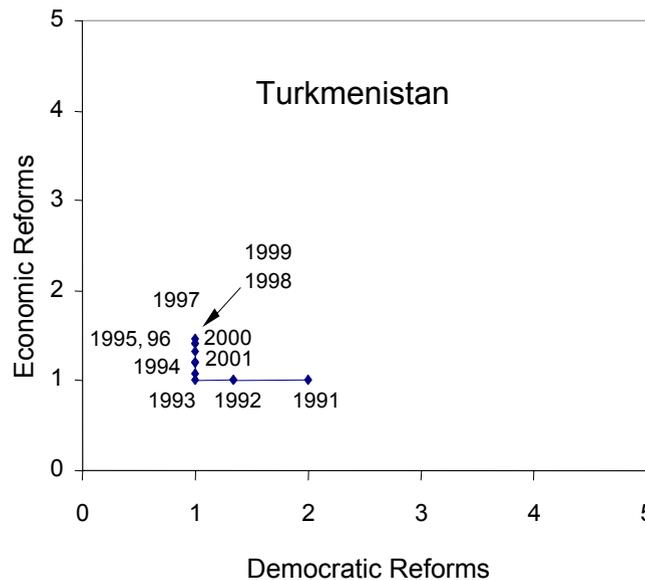
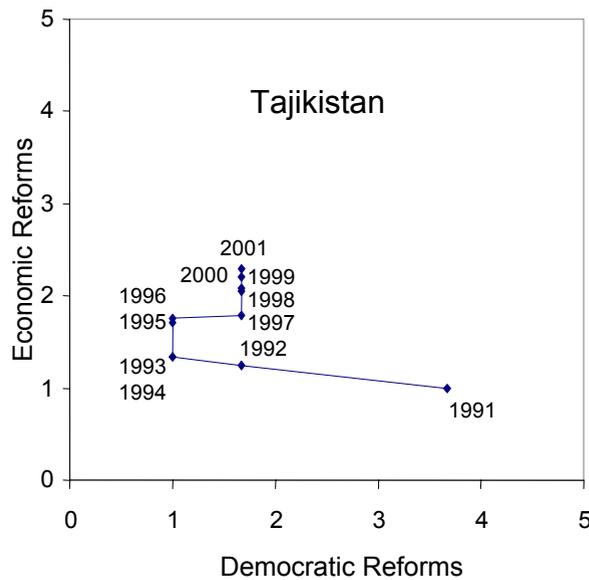
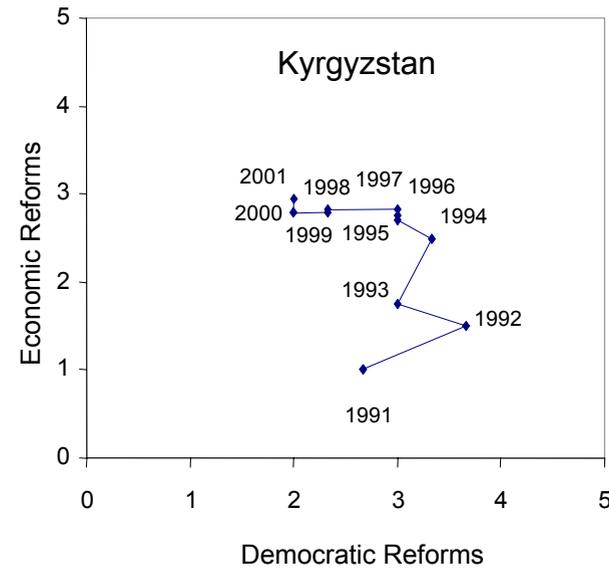
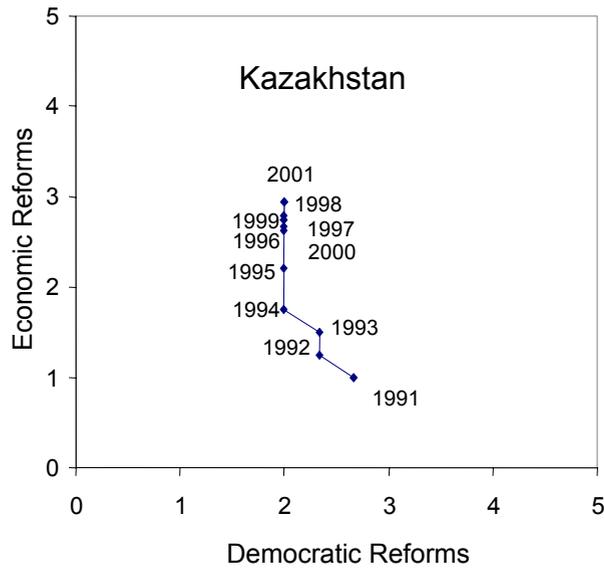
Ratings based on a 1 to 5 scale with 5 representing the most advanced.

Sources: EBRD, *Transition Report 2001* (November 2001); Freedom House, *Freedom in the World 2002* (2002); and (various years).

Not directly comparable to Figure 10 due to differences in methodology and data.

Figure 14

Reform Trends In the Central Asian Republics, 1991-2001



Ratings based on a 1 to 5 scale with 5 representing the most advanced.

Sources: EBRD, *Transition Report 2001* (November 2001); Freedom House, *Freedom in the World 2002* (2002); and (various years).

Not directly comparable to *Figure 10* due to differences in methodology and data.